

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT OFFICE



CALIFORNIA AVOCADO COMMISSION
AUDIT REPORT #08-082

CALIFORNIA AVOCADO COMMISSION

AUDIT REPORT

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Tommy Torres, CPA
Sarah Blote

Audit Chief
Assistant Audit Chief
Audit Manager
Auditor

AUDIT REPORT NUMBER

08-082

TABLE OF CONTENTS

	<u>PAGE</u>
AUDITOR’S REPORT	1
EXECUTIVE SUMMARY	4
KEY RECOMMENDATIONS	6
REPORTABLE FINDINGS.....	9
Suspension And/Or Termination of Employee Benefits	9
Post-Budget Cut Compensation and Benefits.....	12
Nutrition Advisory Committee and Board of Director Annual Meetings .	13
Entertainment Expenses.....	15
Employee Home Office Expenditures	17
Employee Accounts Receivables.....	18
Employee use of Commission Credit Cards	19
Weaknesses in Contracts.....	23
ATTACHMENT A.....	25
ATTACHMENT B	27
ATTACHMENT C	30
CALIFORNIA AVOCADO COMMISSION’S RESPONSE.....	33
CDFA EVALUATION OF RESPONSE	87
DISPOSITION OF AUDIT RESULTS.....	88
REPORT DISTRIBUTION.....	89

Mr. Robert Maxie, Branch Chief
Marketing Services
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

The California Department of Food and Agriculture (CDFA), Executive Office, requested the Audit Office perform a limited scope fiscal and compliance audit of California Avocado Commission (Commission). The objective of this audit was to determine whether certain activities and expenditures incurred by the Commission comply with the law and are within Board authority. In addition, our office was to identify any internal control weaknesses we noted upon examination of the Commission's financial records.

The audit scope was limited by the Marketing Branch as it related to certain expenditures. Most notably, the Marketing Branch has allowed the State's marketing orders to implement a travel policy that can be applied retroactively to the audit period. This travel policy allows for the State's marketing orders to incur lodging and per diem expenses up to three times the current State rate. Therefore, our office has been instructed to only report amounts that exceeded this threshold.

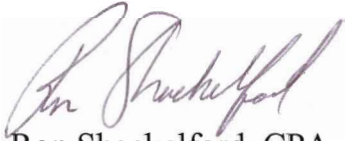
Furthermore, our audit scope was limited to the fiscal years 2005/06, 2006/07, and 2007/08. Although the scope was limited to these three years, our office expanded the scope to include information that covered other years if it was readily accessible and/or may have assisted us in understanding a particular issue.

To accomplish the overall audit objectives, our audit methodology consisted of, but was not all inclusive of, the following review of the Commission's:

- Compliance with various rules and regulations
- Employee and Policy Manuals
- Internal controls
- General ledger detail and various financial related documents
- Board and Committee minutes
- Expenses and supporting documentation, including credit card statements and corresponding receipts for each charge
- Contracts
- Payroll documents

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States.

This audit report is intended solely for the information and use of the management of the CDFA and Commission and should not be used for any other purpose.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office
(916) 651-8774

EXECUTIVE SUMMARY

The California Department of Food and Agriculture (CDFA), Executive Office, requested the CDFA Audit Office to perform a limited scope fiscal and compliance audit of the California Avocado Commission (Commission) to determine whether certain activities and expenditures incurred comply with the law and are within Board authority. In order to accomplish this, our primary focus was the Commission's expenses and compliance with various rules and regulations. We noted the following administrative weaknesses:

- The Commission's former operating policies, which included monthly auto allowances, wellness benefits which pay for gym memberships, gym attire, vitamins, prescriptions, etc., daily lunches brought in for Commission employees, toll road transponders, home internet/fax line service, and career coaches for senior management appear to be excessive and may be deemed personal.
- The Commission's Executive staff continued to receive substantial benefits and perks despite budget reductions made in 2007 by the Board of Directors.
- In three instances, certain Executive staff members and a few Board of Director members incurred expensive and unnecessary charges at luxury hotels. Two of the instances were for the annual nutrition advisory commission meeting, while the third instance was a Board of Directors planning meeting.
- From July 2005 through May 2008, the Commission purchased season tickets to the Anaheim Mighty Ducks hockey games as well as the Los Angeles Angels baseball games. In addition to the money spent on these tickets for the purpose of entertainment, the Commission internal logs show that a large number of these tickets were issued to employees or noted as unused.
- The Commission appears to have improperly spent more than \$17,000 of commission funds to pay for capital improvements to an employee's home that were labeled as home office expenses.
- The Commission allowed Employee A to establish an accounts receivable within its general ledger to account for personal charges incurred. In addition, other Commission employees were allowed to use the Commission postage meter, UPS and FedEx accounts for personal transactions.
- Eighteen Commission employees used company credit cards to incur more than \$1.5 million dollars in charges over the 36-month period. A detailed examination of each employee's credit card statements identified that Commission employees using their Commission's American Express credit cards made a significant amount of discretionary expenses that appeared questionable at best and even personal at times. For example, two used their Commission credit cards and spent approximately \$17,600 on charges for fellow employees related to staff appreciation gifts, meals and flowers for birthdays, employment anniversaries, and other special occasions. Also, various employees purchased approximately \$39,000 at clothing stores including such

retailers as Nordstroms, Talbots, and Ann Taylors, etc. Of these purchases, approximately \$8,700 appears to qualify as a uniform expense due to embroidery that was put on these clothing items. However, the employees stated that all clothing purchases were for business, specifically needed to staff various conferences. In addition, more than \$60,000 was spent on food and beverages at various restaurants. In many instances, a detailed restaurant receipt was not retained to allow an independent verification of the reasonableness of the expenditures. Furthermore, more than \$36,000 was charged by employees on their Commission credit cards for food, beverages, and other miscellaneous items at local grocery stores. While the employees indicated the purchases were necessary to stock the kitchen at the commission, the amount and frequency of the purchases calls into question their necessity.

- Our office noted weakness in the Commission's internal controls over contracts entered into with third parties. Our office noted several instances where contracts were not in compliance with the Public Contract Code (PCC) as it relates to bidding.

KEY RECOMMENDATIONS

1. *The Commission should only reimburse employees for actual business mileage driven. The Commission should require employees to request a mileage reimbursement on a standardized travel expense claim. The Commission should further analyze the gift of public funds issue relating to the \$10,000 purchase allowance and seek reimbursement for these costs if deemed personal.*
2. *All travel expenses incurred for the business of the Commission should be submitted on a travel expense claim with the proper documentation.*
3. *The Commission should continue the suspension and/or termination of employee lunches.*
4. *The Commission should discontinue the wellness program since many of these costs appear to be personal.*
5. *The Commission should ensure proper controls are in place as it relates to employees' home internet/fax lines services, primarily as it relates to the Commission-purchased equipment.*
6. *The Commission should report the additional compensation received to the proper taxing authorities.*
7. *The Commission should determine which expenses were personal in nature and begin collection of these expenses from the employees. The Commission is prohibited from gifting public funds.*
8. *The Commission employees should be made aware of all policy changes that impact their cash flow during the year, especially in years in which the Board authorizes a reduction of their budget.*
9. *The Commission should review all Committee expenses and determine the total amount spent on family members and the personal amounts spent by employees. The Commission should establish an accounts receivable and seek reimbursement of these expenses since these appear to be a gift of public funds.*
10. *The Commission should operate their business activities in the best public interest.*
11. *The Commission should enter into written agreements for all professional service rendered.*
12. *The Commission should not purchase season tickets to professional sports teams since this use of assessment payer dollars does not appear to be in the best interest of the State. Also, the Commission should determine which tickets were for personal use and collect the amounts from their employees.*
13. *The Commission should ensure amounts spent on entertainment are clearly identified within the general ledger. The Commission should consider creating a separate*

expenditure account within the general ledger to ensure there is full transparency over these types of expenditures.

- 14. The Commission should establish an accounts receivable for all costs spent by Employee A on capital improvements to his personal residence if the costs are deemed improper.*
- 15. The Commission should prepare a final accounting and confirm that Employee A returned or reimbursed the fair market value of all equipment purchased for his home office with Commission funds.*
- 16. The Commission should establish a formal telecommute agreement with any employee that it will allow to telecommute and reimburse for telecommuting costs. The agreement should identify the equipment to be installed as well as ongoing expenses that will be reimbursed. Other considerations such as work schedule and expectations should be specified within the agreement; the agreement should be signed by both the employee and their supervisor.*
- 17. The Commission should not allow its staff to use Commission credit cards for any personal use.*
- 18. The Commission should review the \$4,300 in credits given to Employee A for the renovation of his home office for appropriateness. A work order, receipt, or invoice should have been considered the minimum supporting documentation for any reduction in Employee A's outstanding balance. If deemed to be personal, the Commission should seek collection from the employee.*
- 19. The Commission should prohibit its employees from using Commission postage meters or any other mailing services for personal use. Although the personal charges were eventually collected, allowing employees to routinely cross the line between performing necessary business transactions that solely benefit the Commission and conducting personal transactions that only benefit the employee weakens internal controls and exposes the Commission to unnecessary loss.*
- 20. The Commission should ensure that any employee that uses a Commission credit card restricts the use solely to official business. Allowing employees to purchase personal items with their Commission credit cards should be strictly prohibited.*
- 21. The Commission should identify all personal charges incurred by employees on their Commission credit cards and seek reimbursement from the appropriate employees. These personal amounts appear to be a gift of public funds.*
- 22. The Commission should ensure that any purchases of food and beverages are ordinary and necessary and are made in the best interest of the public. All expenditures for food and beverages at restaurants should be supported by retaining the detailed restaurant receipt, identifying the persons and affiliations of the persons provided the meal, and properly justified by documenting the business topics discussed and the benefit expected to be received by the Commission in return.*

- 23. The Commission should refer to IRS regulations regarding allowable considerations and deductions of uniform costs. For items that cannot be considered uniforms, the Commission should immediately stop purchasing these items as a Commission expense.*
- 24. The Commission should adhere to the Public Contracts Code. This includes entering into written contracts when appropriate and also following the bidding requirements.*

REPORTABLE FINDINGS

SUSPENSION AND/OR TERMINATION OF EMPLOYEE BENEFITS

Prior to the start of our audit of the Commission, the Board of Directors implemented new office operation policies that were to become effective May 19, 2008 (*Please see Attachment A for these policies*). Our office reviewed the suspended policies and agrees that many of the benefits eliminated by the new policies were excessive and not in the best interest of the State. Based on information provided to our office by the Commission, it appears the unnecessary expenses amounted to \$345,799 over the 31 months analyzed and could be higher if more information regarding vehicle mileage was provided. In order to better understand the financial impact these policies had on the Commission prior to their suspension and/or termination, our office analyzed the costs associated with some of these policies as outlined below:

A. Auto Benefit Plans (*Please see Attachment B for the management letter and 2007 policy*)

The Commission partially suspended an auto benefit plan that was offered to seven commission employees. This plan cost approximately \$100,000 in fiscal year 2006/07. The auto benefit plan consisted of three components; monthly vehicle allowance, monthly fuel allowance, and a purchase allowance. Effective May 19, 2008, the Commission partially suspended or terminated parts of this policy.

The monthly vehicle allowance was partially suspended by the Commission. The Commission reduced the auto allowances available to the seven employees from a total of approximately \$9,500/month to \$4,200/month. However, the employees are still not required to provide any supporting documentation to justify receiving this amount. Over the 31 month period, the Commission incurred costs of over \$233,000 for the vehicle allowance which may have been unnecessary. The Commission has suspended approximately \$70,000 of this auto allowance. Our office believes the Commission should only reimburse employees for actual business mileage. The \$4,200/month policy appears to be an employee bonus for any months in which the employee does not travel but yet still receives an allowance. This type of allowance does not appear to be in the best interest of the State.

The monthly fuel allowance of \$750/month for each of the seven employees was terminated on May 19, 2008. This allowance cost the Commission \$73,500 over the 31 month period. In most instances, the employee would charge gas to the Commission credit card and provide a receipt for the charge. However, the Commission did not determine whether the employees were using the Commission credit card to get gas for business versus personal purposes. Furthermore, the employees were allowed to charge oil changes, brakes, tires, maintenance, and car washes as part of this fuel allowance. It should be noted that commuting to and from work is considered personal use of a vehicle by the IRS.

The monthly fuel allowance was in addition to the amounts received from the monthly vehicle allowance mentioned above.

The purchase allowance was offered to only five employees. This allowance was a one time \$10,000 cash payment for the employees who provided proof of a vehicle purchase or lease that resulted in out of pocket costs of \$10,000 or more to the employee. It should be noted that all five employees took advantage of this benefit for their personal vehicle purchase/lease. However, one employee eventually reimburse the Commission for the \$10,000 that employee received under the purchase allowance. The purchase allowance raises concerns regarding the appearance of a gift of public funds since this allowance was for the purchase/lease of the employee's personal vehicles. The Commission is not allowed to gift money to an employee for personal expenses.

B. Staff Lunches

Our office noted that since November 1, 2005 the Commission paid approximately \$66,000 for employee lunches. Several times during the month, the Commission would order food through a restaurant delivery service that would bring lunches to the office. The Commission terminated this practice on May 19, 2008. It should be noted that this \$66,000 was in addition to the more than \$79,000 in food purchased for Board and Committee meetings that took place at the office.

C. Wellness Packages

The Commission will suspend employee health club memberships, personal trainers, acupuncture, chiropractic care, vitamins and supplements, and physical therapy costs at year end. Over the 31 month period analyzed the Commission portion of the wellness program cost was approximately \$15,000. These costs may be considered personal in nature and therefore may be unallowable.

D. Toll Road Transponders

The Commission terminated the use of their toll road transponders. The cost over the period was \$26,351. Our office was unable to determine the amount of these costs that were for legitimate business expenses since no tracking sheet was maintained by the Commission. An expense claim system will be used instead which will provide satisfactory support.

E. Career Coaches

The Commission terminated this policy. The costs associated with this policy were approximately \$8,500. The \$8,500 was evidenced through information and analysis provided by the Commission. The memorandum regarding this benefit stated that coaching must be performed by a registered career coach or psychologist pre-approved by the Board president.

F. Financial Planning

A Financial Planning Program whereby four senior officers could be reimbursed up to \$5,000 each for personal financial planning services in 2005. On December 8, 2005 a

2006 Benefit Clarification memo was issued by Employee A stating the four Employees A, D, G, and J who used some, but not all, of the benefit in 2005 could be reimbursed for the unused balance in 2006 by a May 1, 2006 deadline. Total expenditures for this program were \$14,314 disbursed in September, October, November, and December 2005 and April and at May 31, 2006. These expenses are questionable and may be deemed a gift of public funds due to their personal nature. This financial plan did not appear to be offered in 2007.

F. Home Internet/Fax Line Service

The Commission terminated the reimbursement of employees' home internet and fax line services. Over the time period, this benefit cost the Commission almost \$32,000. Some employees were being reimbursed for multiple internet service providers.

The following table presents a summary of the suspended fringe benefits by fiscal year as well as totals for the entire audit period as mentioned above.

Table 1

Audit of California Avocado Commission Total Cost of Benefits Suspended as of May 19, 2008 For the Period November 1, 2005 through May 19th, 2008				
Benefit Suspended	Benefit Cost Per Year			Total for 31-month period
	Nov 1, 05 - Oct 31, 06	Nov 1, 06 - Oct 31, 07	Nov 1, 07 - May 19, 08	
Auto Benefit Plans:				
Mo. Auto Amount reduced to FY 03/04	\$ 18,000	\$ 22,800	\$ 29,100	\$ 69,900
Mo. Fuel Allowance	23,993	27,706	21,810	73,509
One Time Purchase Allowance		50,000	(10,000)	40,000
Employee Lunches (Non Board/Committee)	22,520	30,592	13,212	66,324
Wellness Costs	4,767	5,758	4,433	14,958
Toll Road Transponder	10,581	9,960	5,810	26,351
Career Coaches	3,345	4,349	840	8,534
Home Internet/Fax Line Service	12,180	12,654	7,075	31,909
Financial Planning	14,314	0	0	14,314
Total Cost of Benefits Suspended/terminated over 31 month period	\$ 109,700	\$ 163,819	\$ 72,280	\$ 345,799

The total fringe benefits provided to Commission employees, now being suspended and/or terminated as a result of the New Operation Policies memo, is \$345,799.

Recommendations

1. *The Commission should reimburse employees only for actual business mileage driven. The Commission should require employees to request a mileage reimbursement on a standardized travel expense claim. The Commission should further analyze the gift of public funds issue relating to the \$10,000 purchase allowance and seek reimbursement for these costs if deemed personal.*
2. *All travel expenses incurred for the business of the Commission should be submitted on a travel expense claim with the proper documentation. This includes receipts for toll charges.*
3. *The Commission should continue the suspension and/or termination of employee lunches.*
4. *The Commission should continue the suspension of the wellness program since many of these costs appear to be personal.*
5. *The Commission should ensure proper controls are in place as it relates to employees' home internet/fax lines services, primarily as it relates to the Commission-purchased equipment.*

POST-BUDGET CUT COMPENSATION AND BENEFITS

Executive staff continued to receive substantial benefits despite budget reductions made by the Board of Directors (Board). In March 2007, the Board approved a \$1.2M budget cut. Based on the revised budget that was presented as part of the March 2007 Board minutes, our office noted that employees' incentive bonuses were reduced by \$359,000. However, our office noted other benefits were made available to Executive staff, a policy that appears to be implemented by Employee A. The following are the added benefits and/or compensation extended to employees from Employee A after the incentive bonus was canceled by the Board:

- Effective July 19, 2007, Employee A allowed five employees to receive \$10,000 to purchase/lease a vehicle as mentioned above. This resulted in an additional \$50,000 in compensation that was not reported on the employees' W-2s. Employee A's W-2 should have been stated at \$405,262, Employee G at \$293,464, Employee J at \$237,564, Employee D at \$200,527, and Employee F at \$154,628. Employee A eventually paid the \$10,000 back to the Commission. The Commission stated that not reporting the \$10,000 to the IRS was a mistake that is currently being corrected.

Our office also noted that two of the employees were also issued checks in October 2004 for another vehicle purchase. The total amount paid to the employees for these vehicles amounted to \$29,889. This amount was correctly included in the employees' W-2s.

The auto payments mentioned above appear to be personal and therefore would be unallowable.

- Employee A also increased the monthly auto allowance, as mentioned above. This was an additional bonus to employees that cost the Commission another \$2,400 per month after budget reductions were made.
- Employee A reauthorized the Senior Staff Career Coaching and Leadership Benefit for four of the senior staff for 2008. This authorization was for \$6,000 for each of the four staff. The memorandum stated that the Coaching must be conducted by a registered Career Coach or Psychologist pre-approved by the Board president.
- Employee A also increased the Wellness Program funds available to employees. This was documented in correspondence from Employee A. The 2007 Wellness Benefit Revision states in part,

“In light of the current compensation freeze, Board Member A has directed me to find ways to increase non-salary benefits for CAC’s Senior Management Team.”

Based on the four issues presented above, the additional compensation and benefits offered to the employees totaled \$113,300. This was clearly after the Board had voted to cancel the incentive bonus. In order to better understand who may have known about the additional compensation issues, our office was provided with an email from Employee A to Board Member A. The email was sent on October 7, 2007. Based on the information contained in the email, Employee A appears to have acted with the belief that Board Member A supported these additional benefits that were implemented by the Commission.

Recommendations

6. *The Commission should report the additional compensation received to the proper taxing authorities.*
7. *The Commission should determine which expenses were personal in nature and begin collection of these expenses from the employees. The Commission is prohibited from gifting public funds.*
8. *The Commission employees should be made aware of all policy changes that impact their cash flow during the year, especially in years in which the Board authorizes a reduction of their budget.*

NUTRITION ADVISORY COMMITTEE AND BOARD OF DIRECTOR ANNUAL MEETINGS

An examination of the Commission’s check register noted three large payments for expenditures incurred at luxury hotels. A closer look at the supporting documentation related to these charges raises concerns as to the necessity of these costs. The following three meetings were examined in detail:

2007 Nutrition Advisory Committee Annual Meeting

After reviewing the hotel folios for the 2007 meeting held at the Ritz-Carlton, Laguna Niguel in Dana Point, California, our office does not feel all the costs were in the best interest of the State and appeared to be lavish in nature. According to the hotel folios and itineraries, two Commission board members, Board Member A and Board Member B, and their spouses, along with one of the meeting's speakers, lodged in rooms costing \$850 per night, while the other twelve rooms cost \$300 per night. The Commission also paid for personal expenses of the attendees. Specifically, \$3,702 was charged to the Commission for such services as massages, nail service, facials, and body treatments. These costs appear to be personal in nature and may be considered a gift of public funds.

The meals and beverages appeared excessive as well. Our office noted that upon the arrival to the hotel on Friday night, approximately \$1,200 in alcohol and an additional \$3,900 in meals was paid by the Commission for the approximate 25 attendees. On Saturday, the Commission paid approximately \$9,000 for meals and beverages throughout the day which included \$800 in alcohol. On Sunday, another \$1,085 for breakfast was paid by the Commission.

Our office understands that the speakers did not charge a fee to the Commission for their services but rather chose to have all expenses paid weekend at the Ritz Carlton. However, these speakers provided a service to the Commission and would appear to be independent contractors. Therefore, a more typical business practice would be to enter into a written agreement with the speakers and issue each of them a 1099 if appropriate. According to the Commission, no such written agreements exist.

2006 Nutrition Advisory Committee Annual Meeting

The 2006 Nutrition Advisory Committee Annual Meeting was held at The Lodge at Torrey Pines, La Jolla, California. A review of the hotel folio and other supporting documentation raises questions whether all the costs were in the best interest of the State and again appeared to be lavish in nature. According to the hotel folios and itineraries, two Commission board members, Board Member A and Board Member B, and their spouses, along with one of the meeting's speakers, lodged in rooms costing \$600, \$600, and \$800, respectively, per night while the other thirteen rooms cost \$305 per night. The Commission again paid for personal expenses of the attendees. Specifically, \$2,699 was charged to the Commission for such services as massages, facials, body treatments, and golf. These costs appear to be personal in nature and may be considered a gift of public funds.

The meals and beverages totaled \$10,974 and appeared excessive as well. Our office noted that upon the arrival to the hotel on Friday night, approximately \$1,051 in alcohol and an additional \$3,039 in meals was paid by the Commission for the approximate 19 attendees. On Saturday, the Commission paid approximately \$5,723 for meals and beverages throughout the day and \$1,161 in alcohol charges.

Once again, our office understands that the speakers did not charge a fee to the Commission for their services but rather chose to have all expenses paid weekend at The Lodge at

Torrey Pines. Airfare and transportation costs to and from the lodge for the speakers totaled \$8,982. However, these speakers provided a service to the Commission and would appear to be independent contractors. Therefore, a more typical business practice would be to enter into a written agreement with the speakers and issue each of them a 1099 if appropriate. According to the Commission, no such written agreements exist.

2006 Board of Directors Planning Meeting

The 2006 Board of Directors Planning Meeting was held at L'Auberge Del Mar Resort and Spa, Del Mar, California. The meeting opened on Friday April 7 at 2:00 p.m. and adjourned on Sunday April 9 at 11:30 a.m. A review of the hotel folio and supporting documentation raises questions whether all the costs were in the best interest of the State and again appeared to be lavish in nature. According to the hotel folios and itineraries, the Commission contracted for 60 room nights, but not all invitees attended resulting in an attrition charge of \$3,700 for 12 unused room nights at \$279 per night plus tax.

The meals and beverages totaled \$16,632 and appeared excessive as well. Our office noted that the Commission paid approximately \$13,633 for meals and beverages throughout the meeting with an additional \$2,999 in alcohol. It appears that based on the Board Meeting minutes, 27 individuals were present. However, based on the number of meals purchased and the number of alcoholic beverages purchased, it appears that other guests which included spouses were present during the meals.

Our office understands that board meetings are an integral part of the Commission's successful operation but meeting expenses should not be deemed excessive.

Recommendations

- 9. The Commission should review all Committee expenses and determine the total amount spent on family members and the personal amounts spent by employees. The Commission should establish an accounts receivable and seek reimbursement of these expenses since these appear to be a gift of public funds.*
- 10. The Commission should operate their business activities in the best public interest.*
- 11. The Commission should enter into written agreements for all professional service rendered.*

ENTERTAINMENT EXPENSES

During fiscal years (FY) 2005/06, 2006/07 and 2007/08, the Commission spent a considerable amount of money to purchase season tickets for professional baseball and professional hockey games, raising questions as to the appropriateness of these expenses. Our office noted the Commission purchased season tickets for the Los Angeles Angels baseball team and Anaheim Mighty Ducks hockey team for the purpose of entertaining customers and industry personnel. Accounting records show the total amount spent for the Los Angeles Angels baseball tickets for the regular season and playoffs for FY 05/06, 06/07, and 07/08 was \$36,598. The total amount spent on the Mighty Ducks hockey tickets for the

regular season and playoffs for FY's 05/06, 06/07, and 07/08 was \$86,629. These amounts do not include meals and refreshments purchased at the games.

In an attempt to justify this expenditure, the Commission provided our office with various logs that attempted to list the ticket recipients for both teams, and their affiliations with the Commission. However, our office noted the Commission did not reflect the purpose and nature of the meeting nor identify the business topics discussed with these recipients. The Commission's logs show that a significant number of the tickets were provided to employees. Since the logs list only the employees' names, our office cannot determine whether these tickets were for the personal use of the employee or were to be provided to others. For the three year audit period, the Commission's logs show that approximately 40% of the Mighty Ducks hockey tickets were provided to employees. For the Los Angeles Angels, approximately 15% of the tickets were provided to the employees. Another 21% were noted as unused by the Commission, as the Commission could not find a recipient for the baseball tickets. It should be noted that the employees made no reimbursement to Commission for these tickets.

In order to evaluate whether the Commission rationale for purchasing these tickets was reasonable, our office referred to the Internal Revenue Service (IRS) guidelines for deductible entertainment expenses. The IRS publications specify that entertainment expenses are deductible only if they are ordinary and necessary, and meet either the "directly-related test" or the "associated test." The IRS states, "Entertainment expenses generally are not considered directly related if you are not there or in situations where there are substantial distractions that generally prevent you from actively conducting business." The IRS publication goes on to identify that a meeting or discussion at a sporting event does not meet the directly related test and would not be deductible. As for meeting the "associated test", the Commission did not demonstrate that it had a clear business purpose for having the expense. Regardless, it does not appear that using assessment payer dollars for these expenses is in the best interest of the State.

In addition, the purchase of the season tickets was not clearly transparent within the Commission's general ledger and financial reports. The Commission recorded the expenses for the sporting events in Merchandising, Retail Performance Programs, which does not clearly describe the purpose of the expense. Our office is unsure it was common knowledge to the Commission's Board of Directors that the Commission was paying for these tickets with assessment dollars.

Recommendations

- 12. The Commission should not purchase season tickets to professional sports teams since this use of assessment payer dollars does not appear to be in the best interest of the State. Also, the Commission should determine which tickets were for personal use and collect the amounts from their employees.*
- 13. The Commission should ensure amounts spent on entertainment are clearly identified within the general ledger. The Commission should consider creating a separate expenditure account within the general ledger to ensure there is full transparency over these types of expenditures.*

EMPLOYEE HOME OFFICE EXPENDITURES

The Commission improperly spent more than \$17,000 of commission funds to pay for permanent capital improvements to Employee A's home, which were labeled as home office expenses. Based on the Commission's accounting records, our office noted that on 14 different occasions, the employee paid for labor and improvements such as garage floor coating, tiling, and fencing, to initially construct and later remodel the home office constructed at his personal residence. While it is not unusual to allow employees to telecommute, expenses related to telecommuting are commonly restricted to start-up costs such as equipment and furniture, and on-going expenses, such as the reimbursement of telephone and Internet access. Paying for capital improvements to an employee's home appears to be improper and could be considered a gift of public funds due to the fact the improvements are a permanent benefit to the employee's home.

In addition, our office noted more than \$24,000 spent on equipment purchased by the employee for his home office that was not immediately returned or reimbursed to the Commission upon the employee's separation. Over the past four years, the employee used his Commission credit card to purchase more than 50 equipment related items for his home office. A review of these items purchased in excess of \$100 demonstrates that some of the items appear to provide more of a personal benefit to the employee rather than a business benefit. Among the questionable charges were the purchase of a plasma television and related wall mounts, an I pod, vacuum cleaner, Bose headphones, satellite radio, and a utility sink. Of the \$24,000 of equipment purchased by the employee, only four items totaling \$10,920 had been returned or reimbursed to the Commission as of May 2008. In July 2008, the remaining items were either returned or reimbursed to the Commission by Employee A.

Finally, our office noted the Commission exposed itself to loss by not establishing a formal telecommute agreement with any of its employees that were reimbursed for telecommuting expenses. Such an agreement would have protected the Commission's interests by specifying the work schedule and expectations, and more importantly identifying all expenses the Commission would have deemed proper and paid on behalf of the employee.

Recommendations

- 14. The Commission should consider establishing an accounts receivable for all costs spent by Employee A on capital improvements to his personal residence.*
- 15. The Commission should prepare a final accounting and confirm that Employee A returned or reimbursed the fair market value of all equipment purchased for his home office with Commission funds.*
- 16. The Commission should establish a formal telecommute agreement with any employee that it will allow to telecommute and reimburse for telecommuting costs. The agreement should identify the equipment to be installed as well as on-going expenses that will be reimbursed. Other considerations such as work schedule and expectations should be specified within the agreement; the agreement should be signed by both the employee and their supervisor.*

EMPLOYEE ACCOUNTS RECEIVABLES

The Commission inappropriately allowed employees to incur personal charges on Commission credit cards as well as allowing the use of Commission postage meters and other mailing services for their personal use. Although our office has documented many charges that appear to be either personal or questionable which were discussed throughout our report, the Commission only established an accounts receivable for a portion of these expenses. Within its general ledger, the Commission established two accounts specifically for staff receivables. The first account was solely for Employee A's personal credit card charges and personal use of postage meters and mailing services. The second general ledger account was for the personal use of Commission postage meters and mailing services by all other employees.

By reviewing the Commission general ledger detail, our office noted that for the period November 1, 2006 through May 2008, Employee A acknowledged that thousands of dollars of personal expenses had been charged to the Commission credit card. Therefore, the Commission had established the accounts receivable for the employee to reimburse these costs. To demonstrate the tracking and repayment of the personal charges, the Commission provided us a summary of both accounts that identified the personal charges incurred and the offsetting credits and payments made by the related employees. From these records, we observed the following:

- For the past several years Employee A used the Commission's credit card to incur approximately \$20,000 in charges he acknowledged as being personal. These charges included purchases made at various businesses such as retail stores, restaurants, hotels, and businesses.
- From November 2006 through April 2008, Employee A did not appear to write any personal checks to the Commission to repay this amount. Instead, Employee A used his personal cash to pay day laborers to work on his home office in the amount of \$4,300 which was used to offset his outstanding debt to the Commission. The \$4,300 was only evidenced by Employee A's bank statements which showed ATM cash withdraws on several occasions. However, no other written documentation was provided to us. Our office finds this method of repayment to be questionable. Without specific details of what work was performed, these expenses may be deemed personal and therefore unallowable as an offset of Employee A's balance. Employee A submitted another \$3,416 in receipts that were claimed as business expenses he paid for personally. Rather than receive a repayment from the Commission, the receipts were used as proof to offset his outstanding debt by \$3,416.

In May 2008, Employee A wrote three personal checks to the Commission. One was for \$13,345 to pay the outstanding balance in full, the second was to pay back the \$10,000 used for the vehicle purchase allowance, and the third was for \$5,785 for home office equipment the employee chose to keep as his own.

- All other employees of Commission totaled less than \$1,600 in personal charges for use of the Commissions postage meters, Federal Express and other mailing services. As of May 2008, all charges had been repaid to the Commission.

Our office did not further explore these personal charges since the Commission noted them as such and collected the outstanding balances from the employees.

Recommendations

- 17. The Commission should not allow its staff to use Commission credit cards for any personal use.*
- 18. The Commission should review the \$4,300 in credits given to Employee A for the renovation of his home office for appropriateness. A work order, receipt, or invoice should have been considered the minimum supporting documentation for any reduction in Employee A's outstanding balance. If deemed to be personal, the Commission should seek collection from the employee.*
- 19. The Commission should prohibit its employees from using Commission postage meters or any other mailing services for personal use. Although the personal charges were eventually collected, allowing employees to routinely cross the line between performing necessary business transactions that solely benefit the Commission and conducting personal transactions that only benefit the employee weakens internal controls and exposes the Commission to unnecessary loss.*

EMPLOYEE USE OF COMMISSION CREDIT CARDS

As noted throughout this audit report, Commission employees used Commission credit cards to purchase a vast array of items. During our audit, our office requested each employee to state whether any of their credit card charges were personal in nature. Our office provided each employee with a detailed spreadsheet of their charges and a box that could be checked if the charge was personal. Of the approximately \$1.5M in charges, only a minor amount was deemed personal. However, a detailed examination of each employee's credit card statements identified that Commission employees using their Commission American Express credit cards made a significant amount of discretionary expenses that appeared questionable at best and even personal at times. For the period July 2005 through June 2008, eighteen (18) employees each had a separate American Express card. The total net charges incurred by the employees totaled more than \$1,530,000 for the 36-month period. Please see **Table 3** below for a breakdown of the charges incurred by each employee.

Table 3

CDFA Audit of the California Avocado Commission Summary of Credit Card Charges For the Period July 2005 - June 2008								
Cardholder			Restaurants & Groceries	Retail Stores	Gas & Auto Expenses	Hotels & Airfare	Other	Totals
1	Employee	A	\$ 8,100	\$ 39,575	\$ 13,758	\$ 14,282	\$ 40,484	\$ 116,199
2	Employee	B	5,260	476	611	5,268	918	12,533
3	Employee	C	20,836	18,835	18,941	17,666	25,743	102,021
4	Employee	D	3,747	2,617	2,335	6,860	3,358	18,917
5	Employee	E	17,858	7,971	601	2,750	4,305	33,485
6	Employee	F	3,803	25,784	17,114	17,900	5,774	70,375
7	Employee	G	1,985	6,187	6,776	9,357	4,408	28,713
8	Employee	H	1,223	12,793	1,413	8,128	4,879	28,436
9	Employee	I	8,741	31,600	1,926	11,366	22,643	76,276
10	Employee	J	27,277	39,410	13,552	57,115	7,718	145,072
11	Employee	K	3,067	35,979	1,308	38,727	369,882	448,963
12	Employee	L	1,244	738	1,049	56,366	4,428	63,825
13	Employee	M	14,120	1,602	19,805	75,384	3,610	114,521
14	Employee	N	421	1,933	2,036	3,590	271	8,251
15	Employee	O	399	27,254	16	785	59,368	87,822
16	Employee	P	8,404	17,164	14,493	18,261	4,413	62,735
17	Employee	Q	35,567	14,655	11,676	25,572	23,978	111,448
18	Employee	R	1,935	488	3,596	3,587	444	10,050
Totals			\$ 163,987	\$ 285,061	\$ 131,006	\$ 372,964	\$ 586,624	\$ 1,539,642

Due to the sheer volume of credit card transactions, (more than 4,000 individual charges) it would have been cost prohibitive to audit each charge. As a result, our office summarized all charges for the 36-month period into the following five categories for further analysis.

1. Charges made at Restaurants and Grocery Stores
2. Charges incurred at Hotels and for Airfare
3. Charges made at Retail Stores including department and hardware stores
4. Charges for Gas and Automobile Expenses
5. All Other Charges

It should be noted that in June 2008, shortly before the start of our audit, all employees were required to return their Commission credit cards to the Vice President of Finance and Administration. The Commission indicated that for the foreseeable future, it intended to keep only one credit card to facilitate the purchase of administrative related items.

Within each of the five categories specified above, our office has provided some examples of charges that appear to be questionable or personal in nature. The charges are as follows:

Retail Stores

- Over the 36 month period, Employees C and E used their Commission credit cards and spent approximately \$17,600 on charges for fellow employees related to staff appreciation gifts, meals and flowers for birthdays, employment anniversaries, and other special occasions. Of this amount, the employees described approximately \$8,600 of these charges as Board member gifts. *(Please see attachment C for the detail)*
- Various employees charged approximately \$30,000 at clothing stores including such retailers as Nordstroms, Talbots, Ann Taylors, Mervyns, etc. Although the employees stated these purchases were business clothes that were needed to staff conferences, the purchases appeared excessive and furthermore do not meet the IRS guidelines for business related attire. The employees were allowed to keep the clothing without reimbursement after the conventions ended. An additional \$8,700 in Tommy Bahama shirts was purchased which appear to have been embroidered, thereby making these shirts allowable uniform expenses.

Hotels and Airfare

- Employee Q used her Commission credit card to purchase two airline tickets, at a cost of \$1,030, for the Commission Board Chairman and his spouse to attend a PMA convention.
- Employee L charged \$6,787 on her Commission credit card to the Pala Mesa Resort to hold a memorial service for a former Commission consultant who passed away.
- In a few instances, employees paid daily hotel rates that were in excess of \$300/night for out-of-state trips to New York and Washington DC. Since the Commission did not document other hotel rates available at the time, we are unable to determine if these rates are excessive.

Restaurant and grocery charges

- Our office noted 13 different employees used their credit cards to spend more than \$45,000 at restaurants. The charges consisted of approximately 60 separate instances where employees paid for food and beverages at restaurants where the cost exceeded more than \$300 apiece. Although the Commission attempted to justify the expenditure by reflecting the persons provided the meal, our office noted in many instances a detailed restaurant receipt was not maintained to allow an independent person to determine the reasonableness of the expenditure.
 - Among the 60 instances noted above, Employee P spent \$3,005 on food and drinks at a suite for one Los Angeles Angels game. Our office noted the Commission paid for these food and beverages at suite prices that are considerably higher than that of normal concession stands. Among the

attendees were the spouses of two employees. Furthermore, our office noted \$450 was spent on alcohol during the game.

- In another example, Employee J spent \$1,777 at a restaurant with business associates. An itemized restaurant receipt was not retained for us to determine the reasonableness of the expenditures.
 - Employee C spent \$2,555 at a restaurant for an annual Board Planning Meeting. Of the total, \$363 was spent on alcohol.
 - Also, Employee J spent \$3,148 for appreciation of all staff and agency personnel who worked the booth at the 2005 Produce Marketing Association (PMA). An itemized restaurant receipt was not retained for us to determine the reasonableness of the expenditures.
- In several instances, our office noted Staff used their Commission credit card to purchase individual meals, snacks, and coffee unrelated to out-of-area travel.

Other Charges

- Employee K used her Commission credit card to pay for more than \$35,000 in booth expenses on behalf of the Hass Avocado Board (HAB). Although the HAB reimbursed the Commission for these charges, paying a significant amount for another entity's expenses is not a proper use of Commission dollars. The Commission and HAB could work more closely together prior to the payment to ensure that each entity pays for their own expenses.
- Employee P spent \$1,000 to purchase two tickets for her and her spouse to attend the City of Hope National Medical Center and Beckman Research Institute's Harvest Ball Dinner. The City of Hope is an independent biomedical research, treatment and education institution and a leader in the fight against cancer, diabetes, HIV/AIDS and other life-threatening diseases. This event is a fundraiser and the Commission's donation is not an allowable use of Commission dollars.

Gas and Auto Expenses

The majority of the expenses incurred by employees on their Commission credit cards related to purchases of tolls, gas, car washes, and car repairs related to Commission Fuel Program that has been previously discussed in this audit report.

Recommendations

20. *The Commission should ensure that any employee that uses a Commission credit card restricts the use solely to official business. Allowing employees to purchase personal items with their Commission credit cards should be strictly prohibited.*
21. *The Commission should identify all personal charges incurred by employees on their Commission credit cards and seek reimbursement from the appropriate employees. These personal amounts appear to be a gift of public funds.*
22. *The Commission should ensure that any purchases of food and beverages are ordinary and necessary and are made in the best interest of the public. All expenditures for food*

and beverages at restaurants should be supported by retaining the detailed restaurant receipt, identifying the persons and affiliations of the persons provided the meal, and properly justified by documenting the business topics discussed and the expected value to be received by the Commission in return.

23. *The Commission should refer to IRS regulations regarding allowable considerations and deductions of uniform costs. For items that cannot be considered uniforms, the Commission should immediately stop purchasing these items as a Commission expense.*

WEAKNESSES IN CONTRACTS

Our office identified several instances in which payments were made to independent contractors that (i) did not demonstrate any competitive bidding effort or (ii) were not supported by any type of contract. Our scope was limited to these two areas and we did not attempt to determine if the contracts were fulfilled. Our office requested information regarding several payments to independent contractors to determine whether the Commission was in compliance with the Public Contracts Code (PCC) as it related to bidding.

Based on our review of Commission payments to independent contractors, our office noted the following items:

- During 2007, the Commission entered into an agreement with Company A to provide consumer advertising services. The amount of the contract was \$6,215,000. No evidence was provided that the Commission demonstrated a competitive bidding effort in securing Company A's services.
- During 2007, the Commission entered into an agreement with Company B to provide general management of public relations and nutrition programs. The amount of the contract was \$692,000. No evidence was provided that the Commission demonstrated a competitive bidding effort in securing Company B's services.
- During 2007, the Commission entered into an agreement with Company C to provide website, information technology, on-line marketing and communications services. The amount of the contract was \$705,500. No evidence was provided that the Commission demonstrated a competitive bidding effort in securing Company C's services.
- During 2003, 2004, 2005 and 2006, the Commission made payments to Company G totaling \$156,354 for services relating to research coordination. Based on the one contract our office received for Company G totaling \$47,000, it appears that Company G may have been paid more than the stated maximum on the contract by \$109,354. This would depend on whether this amount represents reimbursable expenses that are supported with actual receipts not reviewed by our office. In addition, no evidence was provided that the Commission demonstrated a competitive bidding effort.
- During 2003, 2004, 2005 and 2006, the Commission made payments to Company H totaling \$154,665 for services relating to various services. Our office was never

provided a contract for these payments and no evidence was provided that the Commission demonstrated a competitive bidding effort.

- During 2003, 2004, 2005 and 2006, the Commission made payments to Company I totaling \$167,348 for general marketing services. Based on the one contract our office received for Company I totaling \$42,000, it appears that Company I may have been paid more than the stated maximum on the contract by \$125,348. This would depend on whether this amount represents reimbursable expenses that are supported with actual receipts not reviewed by our office. In addition, no evidence was provided that the Commission demonstrated a competitive bidding effort.
- During May 2008 the Commission allowed Company J to hire an accounting firm to conduct a limited scope audit of the Commission. Our office requested the contract for this engagement but none was provided. However, our office was provided a copy of the audit report after it had been completed. From July 2005 through May 2008 the Commission paid Company J \$66,961 without having executed a written contract.

Recommendation

24. The Commission should adhere to the Public Contracts Code. This includes entering into written contracts when appropriate and also following the bidding requirements.

ATTACHMENT A

May 16, 2008

10 AM
5-19-08
Staff Meeting

NEW OFFICE OPERATION POLICIES
EFFECTIVE MAY 19, 2008

1. Standard office hours will be from 8:00 a.m. to 5:00 p.m.
2. Between 12:00 noon and 1:00 p.m., staff will be rotated to ensure that phones are answered during the lunch hour.
3. Lunch shall only be provided by CAC on days when there are either Board or Committee meetings in the office. Meals for other business functions, such as large-scale agency planning meetings, must be approved in advance by CAC management.
4. Outgoing mail will be dropped off at the U.S. Post Office by **REDACTED**, who is at liberty to leave early if necessary to do so.
5. The following "fringe" benefits previously extended by the Commission are hereby suspended:
 - a. Employees may no longer use the CAC express courier or UPS accounts, or the CAC postage meter, for personal shipping or postage
 - b. Toll road transponders must be surrendered to CAC management by the end of the day
 - c. Employees receiving an auto allowance will have their allowance level reduced to the amount provided by the Commission in 2003-04. There will be no monthly gas allowance.
 - d. Mileage traveled on Commission business shall be reimbursed at the standard IRS rate in effect at the time of travel for all employees. Mileage commuting to and from the office from the employee's home shall not be reimbursed, nor shall car washes or vehicle repairs.
 - e. The 2007-08 Wellness benefit shall continue through the end of the fiscal year. Reimbursements are limited to the following qualifying expenditures for Commission employees only (not family members):
 - i. Health club memberships
 - ii. Personal trainers (with evidence of completion of training sessions)
 - iii. Acupuncture and chiropractic care
 - iv. Vitamins and supplements
 - v. Physical therapy
 - f. The availability of career coaching for senior staff is terminated
 - g. CAC shall no longer reimburse employees for home internet or fax line services
 - h. American Express cards on the Commission's account held by individual employees shall be returned to CAC management immediately
6. All expense reports submitted by senior staff (Acting COO, VP Marketing, VP Finance & Administration, and Director of Industry Affairs) shall be approved by two or more members of CAC's Executive Committee prior to payment. All other expense reports shall be approved by Department supervisors.

ATTACHMENT B

REDACTED
REDACTED

2007 AUTO BENEFIT PLAN

JULY 19, 2007

TO: REDACTED
FROM: REDACTED
SUBJECT: REVISED CAC AUTO BENEFIT PLAN

As I've mentioned to you several times over the past few years, the job market for senior executives is extremely tight. When you factor in the specialized nature of CAC's operation, the potential candidate pool is thin indeed. REDACTED REDACTED is fully aware of this situation and repeatedly expresses concern about our ability to retain senior staff, especially now with compensation frozen due to crop damage in early 2007.

As REDACTED, it's my job to closely monitor CAC's Senior Staff Team—widely viewed as the best anywhere in the world—for morale and job satisfaction with an eye on retaining this very important industry asset. The CAC Board has given me the authority to develop and maintain a Benefits Program that addresses the circumstances surrounding whether Senior Staff Members stay or leave the Commission.

I've just completed my annual mid-year (calendar) Benefits Review per the above and carefully evaluated our current program. In that endeavor, I found a significant, indeed urgent, need to boost morale and make sure CAC's Senior Staff Team does not leave the Commission this year with compensation frozen. My response to that need follows.

I am recommending several changes in our AUTO BENEFIT PROGRAM. My focus is on this program because of the high (and rising) costs associated with operating an automobile in California—purchase, insurance, maintenance, operation and depreciation. In addition, many employees today are leasing vehicles that require a major cash penalty (several thousand dollars) upon termination for "extra mileage" caused by CAC's extensive driving requirements.

My revised AUTO BENEFIT PROGRAM recommendation has three components, listed below and described in **EXHIBIT A** on the next page: →

1. MONTHLY VEHICLE ALLOWANCE
2. MONTHLY FUEL ALLOWANCE
3. PURCHASE ALLOWANCE

REDACTED

38 Discovery Suite 150
Irvine, California 92618
PH: (949) 341-1955 ext 101
FAX: (949) 341-1970

REDACTED



EXHIBIT A

2007 AUTO BENEFIT PLAN

EFFECTIVE
AUGUST 1, 2007

**MONTHLY
AUTO ALLOWANCE**



**MONTHLY *
FUEL ALLOWANCE**



REDACTED	\$1,990	\$750
REDACTED	\$1,490	\$750
REDACTED	\$1,390	\$750
REDACTED	\$1,190	\$750
REDACTED	\$1,190	\$750
REDACTED	\$ 890	\$750
REDACTED	\$ 890	\$750

* Includes fuel, oil changes, brakes, tires, maintenance, and exterior protection/care.

**ONE-TIME
PURCHASE ALLOWANCE**

EFFECTIVE

JULY 19, 2007
THROUGH
OCTOBER 31, 2007

The **PURCHASE ALLOWANCE** component of the 2007 Auto Benefit Program is available for REDACTED, REDACTED, REDACTED, REDACTED, and REDACTED. This program makes available--**FOR ONE TIME ONLY**--up to \$10,000 immediately upon presentation of proof of vehicle purchase or lease. Draws against the \$10,000 limited to out of pocket cash by employee on the auto purchase/lease agreement.

TERMS for this benefit follow:

IF EMPLOYEE STAYS AT CAC THROUGH DECEMBER 31, 2008:

- DRAWS AGAINST THE PURCHASE ALLOWANCE ARE FORGIVEN

IF EMPLOYEE RESIGNS ANY TIME PRIOR TO DECEMBER 31, 2008:

- Principal and simple interest @ 5% per annum are due upon departure from CAC

APPROVED BY REDACTED REDACTED

JULY 19, 2007

ATTACHMENT C

CDFA AUDIT OFFICE					
AUDIT OF CALIFORNIA AVOCADO COMMISSION					
COMPREHENSIVE LIST OF CREDIT CARD PURCHASES FOR STAFF APPRECIATION					
FOR THE PERIOD JULY 2005 THROUGH JUNE 2008					
CARDHOLDER	DATE	AMOUNT	MERCHANT	CARDHOLDER'S DESCRIPTION OF PURCHASE	
Employee C	3/29/2006	\$ 68.15	1-800 Flowers	get well flowers for employee	
Employee C	3/31/2006	49.54	1-800 Flowers	sympathy flowers for board member (billed to and paid for by HAB)	
Employee C	4/13/2006	53.05	1-800 Flowers	staff appreciation - anniversary plant for employee	
Employee C	11/5/2005	48.47	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	11/15/2005	43.89	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	11/30/2005	43.89	1-800 Flowers	staff appreciation - employee anniversary plant	
Employee C	1/5/2006	48.47	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	1/14/2006	67.86	1-800 Flowers	get well flowers for commission associate	
Employee C	1/24/2006	35.72	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	2/2/2006	70.48	1-800 Flowers	congratulations flowers for the birth of employee's granddaughter	
Employee C	2/11/2006	67.86	1-800 Flowers	get well flowers for employee	
Employee C	7/7/2006	39.31	1-800 Flowers	staff appreciation - HAB anniversary plant (billed and paid for by HAB)	
Employee C	8/1/2006	54.12	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	8/2/2006	49.54	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	8/22/2006	47.39	1-800 Flowers	staff appreciation - employee anniversary plant	
Employee C	8/31/2006	53.52	1-800 Flowers	staff appreciation - employee anniversary plant	
Employee C	9/9/2006	48.47	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	9/9/2006	58.70	1-800 Flowers	get well flowers for employee	
Employee C	9/30/2006	58.70	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	10/17/2006	57.02	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	10/21/2006	58.70	1-800 Flowers	staff appreciation - employee anniversary flowers	
Employee C	10/26/2006	64.36	1-800 Flowers	staff appreciation - employee anniversary plant	
Employee C	10/27/2006	57.36	1-800 Flowers	staff appreciation - employee anniversary plant	
Employee C	10/27/2006	62.46	1-800 Flowers	congratulations bouquet given to employees daughter for birth of her son	
Employee C	10/28/2006	57.20	1-800 Flowers	get well flowers for commission associate	
Employee C	10/28/2006	64.19	1-800 Flowers	staff appreciation - thank you flowers to employee for work on PMA	
Employee C	10/26/2006	64.36	1-800 Flowers	staff appreciation - anniversary plant for employee	
Employee C	10/27/2006	57.36	1-800 Flowers	staff appreciation - anniversary plant for employee	
Employee C	10/27/2006	62.46	1-800 Flowers	Congratulation flowers for employees daughter (birth of son)	
Employee C	10/28/2006	64.19	1-800 Flowers	Staff Appreciation - Thank you flowers for employees work on PMA	
Employee C	10/28/2006	57.20	1-800 Flowers	get well flowers for commission associate	
Employee C	11/9/2006	53.33	1-800 Flowers	Congratulation flowers for commission associate @ Interactive (birth of son)	
Employee C	11/21/2006	58.70	1-800 Flowers	get well flowers for commission associate	
Employee C	11/29/2006	81.60	1-800 Flowers	Sympathy flowers for commission associate	
Employee C	12/5/2006	44.36	1-800 Flowers	Staff Appreciation - Anniversary plant for employee	
Employee C	12/5/2006	48.47	1-800 Flowers	staff appreciation - anniversary plant for employee	
Employee C	12/13/2006	53.67	1-800 Flowers	Congratulation flowers for commission associate @ Colby (birth of son)	
Employee C	12/20/2006	77.02	1-800 Flowers	Sympathy flower for commission associate	
Employee C	1/5/2007	47.86	1-800 Flowers	Staff Appreciation - Anniversary flowers for employee	
Employee C	1/13/2007	79.98	1-800 Flowers	Sympathy flowers for employee	
Employee C	1/20/2007	68.94	1-800 Flowers	Sympathy flowers for employee	
Employee C	2/2/2007	48.47	1-800 Flowers	Staff Appreciation - Anniversary plant for commission employee	
Employee C	3/29/2007	45.71	1-800 Flowers	Staff Appreciation - Anniversary plant for commission employee	
Employee C	5/10/2007	58.64	1-800 Flowers	Sympathy plant for employees	
Employee C	5/23/2007	50.62	1-800 Flowers	Get well flowers for employee	
Employee C	6/8/2007	57.62	1-800 Flowers	Staff Appreciation - Anniversary plant for employee	
Employee C	10/1/2007	51.70	1-800 Flowers	staff appreciation - anniversary plant for employee	
Employee C	10/11/2007	69.26	1-800 Flowers	Staff Appreciation - Sympathy arrangement for employee	
Employee C	10/17/2007	197.16	1-800 Flowers	Sympathy arrangement for employee	
Employee C	10/17/2007	64.36	1-800 Flowers	Staff Appreciation - Anniversary flowers for employee	
Employee C	10/26/2007	43.68	1-800 Flowers	staff appreciation - anniversary plant for employee	
Employee C	10/29/2007	68.94	1-800 Flowers	Staff Appreciation - Anniversary flowers for employee	
Employee C	10/29/2007	48.47	1-800 Flowers	staff appreciation - anniversary plant for employee	
Employee C	11/13/2007	57.09	1-800 Flowers	Sympathy flowers for employee	
Employee C	12/4/2007	62.53	1-800 Flowers	staff appreciation - anniversary plant for employee	
Employee C	1/9/2008	59.71	1-800 Flowers	Get well plant for grower	
Employee C	1/25/2008	68.94	1-800 Flowers	Sympathy plant for employees	
Employee C	1/29/2008	55.48	1-800 Flowers	Get Well flowers for employee at Associated Mktg	
Employee C	2/19/2008	58.64	1-800 Flowers	Get Well flowers for a commission grower	
Employee C	2/21/2008	59.78	1-800 Flowers	Sympathy flowers for commission associate	
Employee C	3/27/2008	90.96	1-800 Flowers	Sympathy floor arrangement for commission grower	
Employee C	3/7/2008	24.97	Author House Website	Staff Appreciation - anniversary gift for employee (hockey memorabilia gift basket)	
Employee C	10/27/2006	146.43	Babies R Us	Staff Appreciation - Gift basket to welcome employees new grandson	
Employee C	10/27/2006	146.43	Babies R Us	Staff Appreciation Gift - congratulations gift to employee for the birth of her grandson	
Employee C	6/9/2007	50.38	Baby Center	Gifts for employees baby shower	
Employee C	10/26/2006	35.58	Baskin Robbins	birthday cake to celebrate cac office birthdays	
Employee C	12/14/2007	32.99	Baskin Robbins	birthday cake to celebrate cac office birthdays	
Employee C	10/26/2006	35.58	Baskin Robbins	birthday cake to celebrate cac office birthdays	
Employee C	2/9/2007	53.86	Conry's flowers	Get well plant for commission associate	
Employee C	4/18/2008	15.99	Costco	Birthday cake for commission office birthday	
Employee C	2/23/2007	14.99	Costco	Staff Appreciation - Going Away cake for employee	
Employee C	9/8/2006	3.98	CVS	Good Luck card for employees resignation	
Employee C	10/19/2006	38.03	CVS	misc greeting cards for commission office	
Employee C	11/14/2007	86.77	CVS	Misc "event" cards for commission office (birthday, sympathy, get well, etc.)	
Employee C	1/5/2008	208.00	Irvine Spectrum Center	Staff Appreciation - Four \$50 gift cards for commission staff anniversaries	

CDFA AUDIT OFFICE				
AUDIT OF CALIFORNIA AVOCADO COMMISSION				
COMPREHENSIVE LIST OF CREDIT CARD PURCHASES FOR STAFF APPRECIATION				
FOR THE PERIOD JULY 2005 THROUGH JUNE 2008				
CARDHOLDER	DATE	AMOUNT	MERCHANT	CARDHOLDER'S DESCRIPTION OF PURCHASE
Employee C	4/23/2008	156.00	Irvine Spectrum Center	Staff Appreciation - Three \$50 gift cards for commission staff anniversaries
Employee C	10/25/2006	1,292.80	LL Bean Inc	Commission & HAB Board Gifts
Employee C	10/26/2006	3,381.00	LL Bean Inc	Commission & HAB Board Gifts
Employee C	11/13/2006	147.00	LL Bean Inc	Commission & HAB Board Gifts
Employee C	11/13/2006	98.00	LL Bean Inc	Commission & HAB Board Gifts
Employee C	9/7/2006	53.86	Macy's	Staff Appreciation Gift - crystal salad bowl for employee's resignation
Employee C	10/30/2006	17.84	Michaels	Staff Appreciation Gift - basket and gift wrap for employees gift
Employee C	10/30/2006	17.84	Michaels	Gift wrap for employees gift basket
* Employee C	12/7/2006	76.93	Michaels	Decorations for commission associates memorial
* Employee C	12/5/2006	250.46	Papyrus	"Memory" cards for use at commission associates memorial
Employee C	12/6/2006	(40.89)	Papyrus	Return - "Memory" cards for use at commission associates memorial
Employee C	3/6/2008	56.00	Paypal	Staff Appreciation - Anniversary gift for employee (Hockey Memorabilia gift basket)
Employee C	3/13/2008	40.94	Paypal	Staff Appreciation - Anniversary gift for employee (Hockey Memorabilia gift basket)
Employee C	3/6/2008	29.99	Paypal	Staff Appreciation - Anniversary gift for employee (Hockey Memorabilia gift basket)
Employee C	3/6/2008	9.49	Paypal	Staff Appreciation - Anniversary gift for employee (Hockey Memorabilia gift basket)
Employee C	3/29/2006	33.36	SavOn Drugs	misc birthday, get well, sympathy cards for commission office
Employee C	11/15/2005	35.13	SavOn Drugs	birthday cards for commission office
Employee C	11/19/2005	3.98	SavOn Drugs	wedding card for commission associate
Employee C	8/22/2006	21.53	Silver Creek Nursery	staff appreciation - employee anniversary plant
Employee C	9/9/2006	6.97	Target	gift wrap for employee's gift
Total Charges		10,240.92		
Employee E	8/2/2005	96.94	1 800 Flowers	Staff appreciation - Anniversary flowers for employees
Employee E	8/23/2005	49.54	1 800 Flowers	Staff appreciation - Anniversary flowers for employee
Employee E	7/14/2007	78.64	1 800 Flowers	Congratulations flowers for employees birth of daughter
Employee E	7/21/2007	72.16	1 800 Flowers	Staff Appreciation - Anniversary plant for employee
Employee E	7/24/2007	65.07	1 800 Flowers	Get well plant for employee
Employee E	8/3/2007	138.96	1 800 Flowers	Staff Appreciation - Anniversary flowers for employees
Employee E	8/11/2007	78.10	1 800 Flowers	Memorial flowers for commission associate memorial
Employee E	8/21/2007	62.14	1 800 Flowers	Staff Appreciation - Anniversary flowers for employee
Employee E	9/4/2007	48.47	1 800 Flowers	Staff Appreciation - Anniversary plant for employee
Employee E	9/4/2007	60.06	1 800 Flowers	Congratulations flowers for employee (birth of new baby)
Employee E	9/10/2007	55.20	1 800 Flowers	Staff Appreciation - Anniversary plant flowers for employee
Employee E	9/10/2007	60.31	1 800 Flowers	Staff Appreciation - Anniversary flowers for employee
Employee E	9/9/2006	10.00	Ace Parking	Staff appreciation - parking fees while picking up lunch for employee resignation party
Employee E	9/9/2006	20.44	Albertsons	Staff appreciation - balloons for employee's resignation party
Employee E	5/30/2007	106.95	Babies R Us	Staff Appreciation - commission gifts & decorations for employee's baby shower
Employee E	6/19/2007	509.65	Babies R Us	Staff Appreciation - commission gifts for employee baby shower
Employee E	6/20/2007	288.90	Babies R Us	Staff Appreciation - commission gifts & decorations for employees baby shower
Employee E	8/24/2007	59.44	Best Flowers	Congratulations flowers for employee (birth of son)
Employee E	10/25/2006	1,148.40	LL Bean Inc	Commission & HAB Board Gifts
Employee E	10/25/2006	2,249.10	LL Bean Inc	Commission & HAB Board Gifts
Employee E	10/25/2006	95.40	LL Bean Inc	Commission & HAB Board Gifts
Employee E	3/1/2007	106.95	LL Bean Inc	Commission & HAB Board Gifts
Employee E	3/22/2007	49.50	LL Bean Inc	Commission & HAB Board Gifts
Employee E	4/10/2007	55.45	LL Bean Inc	Commission & HAB Board Gifts
Employee E	11/27/2007	32.00	Party City	Supplies for HAB Board gifts
Employee E	5/29/2007	96.69	Party City	Staff Appreciation - Decorations for employee baby shower
Employee E	6/19/2007	131.26	Party City	Staff Appreciation - Decorations for employee baby shower
Employee E	6/25/2007	8.58	Party City	Staff Appreciation - Decorations for employee baby shower
Employee E	5/21/2007	645.73	Target	Staff Appreciation - commission gifts for employee baby shower
Employee E	9/10/2006	385.07	The Cheesecake Factory	Staff appreciation - lunch brought in for employee's resignation party
Employee E	10/11/2006	513.19	Zcater	Staff appreciation - lunch to celebrate employee's 35th anniversary
Total Charges		7,378.29		
GRAND TOTAL		\$ 17,619.21		

CALIFORNIA AVOCADO COMMISSION'S RESPONSE

November 19, 2008

Mr. Ron Shackelford, CPA
Chief, Audit Office
California Department of Food & Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford:

I am writing in my capacity as Chairman of the California Avocado Commission (Commission) to respond to the preliminary draft audit of the Commission, and accompanying recommendations, provided to the Commission in documents dated October 21, 2008.

The Commission welcomes the opportunity provided by the audit to fine tune its administrative functions, policies and procedures, so that it is as efficient as possible in implementing its statutorily mandated responsibilities. It is with this mindset that the Commission's board of directors and staff have given full consideration to the audit and recommendations in preparation of the response which follows.

The Commission has taken aggressive action in the past six months to evaluate and eliminate office policies and procedures that were inefficient and not in the Commission's best interests. The Commission initiated its own audit prior to CDFA's audit and has fully investigated its accounting and disbursement procedures. The Commission has amended its bylaws to create a standing Finance Committee and is currently reviewing and where necessary, revising administrative policies and procedures. This process has achieved greater transparency, accountability and productivity. It has also enhanced the working relationship between the board of directors and staff.

The Commission has carried out its activities consistent with its governing law (Food & Ag. Code §§ 67001 et seq.) and the Policies for Marketing Programs manual issued by CDFA. The Commission has fulfilled its mandate by increasing the positive profile of avocados in this state and elsewhere which represents billions of dollars in revenue and thousands of jobs to the State of California.

Mr. Ron Shackelford, CPA
California Department of Food and Agriculture
November 19, 2008
Page 2

In closing, I want to share with you the appreciation of Commission staff for the professional manner in which you and your staff have conducted the audit. Please contact me at your convenience if you would like additional explanation regarding the Commission's response to the audit and recommendations.

Sincerely,

A handwritten signature in cursive script, appearing to read "Rick Shade". The signature is written in dark ink and is positioned above the printed name.

Rick Shade, Chairman

CDFA AUDIT RECOMMENDATIONS AND COMMISSION RESPONSES

1. *The commission should only reimburse employees for actual business mileage driven. The Commission should require employees to request mileage reimbursement on a standardized travel expense claim. The Commission should further analyze the gift of public funds issue relating to the \$10,000 purchase allowance and seek reimbursement for these travel costs if deemed personal.*

The Commission has implemented revised policies pertaining to the auto allowance and gas allowance. Currently, the Commission reimburses employees for actual mileage driven pursuant to Internal Revenue Service (IRS) guidelines. A standardized travel expense form to track mileage accumulation has been prepared and issued to employees (attached).

In May, 2008, the Commission reduced the auto allowance benefit to 2003/04 levels. In 2003/04 the Board reviewed employee compensation and travel requirements. After this review, auto allowances were increased and implemented for certain members of the staff based upon their job requirements and overall compensation. In 2007, Employee A, without the approval of the Board, initiated a significant increase to the auto allowance. Auto allowances are considered a benefit and the benefit appears on the employees' W-2 as taxable income. The Commission shall review each employee's auto allowance as part of their review process and evaluation of the employee's overall compensation package as well as related budget concerns. Because this is a benefit item treated as part of the overall compensation of these employees, the Commission does not require specific documentation for reimbursement of an expense.

The Commission has reviewed the auto purchase benefit implemented in 2003/04 and again in 2007 and has concluded that this policy was implemented without board oversight and approval. It appears that in 2003/04 the policy was accounted for as a benefit and accordingly taxed to the appropriate employee(s). The 2007 auto benefit plan was drafted by Employee A. The document asserts that Employee A was given authority to develop and maintain a benefits program to address staff retention. Board Member A advised Employee A to implement non cash benefits to address staff morale. Employee A was specifically advised that the budget was not to be affected with respect to any of these matters. The documents included with the CDFA audit were not reviewed by the Commission Board until May, 2008.

While the implementation of this policy was clearly unauthorized by the Commission Board, the senior staff was told by Employee A that it was an authorized and approved benefit. The Commission believes that this benefit should be considered additional income to the employees affected and will be added to the employees' 2008 W-2.

2. *All travel expenses incurred for the business of the Commission should be submitted on a travel expense claim with the proper documentation.*

The Commission agrees that appropriate documentation is a requirement for all travel expenses incurred for the business of the Commission. The staff expense report and the board member expense report are attached.

3. *The Commission should continue the suspension and/or termination of employee lunches.*

The Commission agrees. Effective May 19, 2008, the Commission instituted new office operation policies, one of which stated, "Lunch shall only be provided by CAC on days when there is either Board or Committee meetings in the office. Meals for other business functions, such as large-scale agency planning meetings, must be approved in advance by CAC management." This policy replaced the previous employee lunch policy.

4. *The Commission should discontinue the wellness program since many of these costs appear to be personal.*

The Commission agrees. This benefit was eliminated from the 2008/09 budget.

In January, 2000, Employee A instituted a wellness policy for the staff. Initially, the amount was \$500.00 annually and was to be used toward a "well" physical. The benefits were expanded and the amounts increased over the years. In the 2007/08 fiscal year, the amount was \$3,000.00 per year for senior staff and \$1,200.00 annually for the remainder of the staff. The benefits included gym memberships, gym clothes, exercise equipment and other related items.

There was no approval from the Commission for this benefit. Employee A prepared a pamphlet with supporting documentation which references Board approval given to Employee A by Board Member A, but as demonstrated below this has not been confirmed. Further, an employee benefit summary requested by the Board in 2003 did not include the wellness policy as a listed benefit.

5. *The Commission should ensure proper controls are in place as it relates to employees' home internet/fax lines services, primarily as it relates to the Commission-purchased equipment.*

The Commission agrees. The Commission staff and counsel are developing an agreement for implementation in the 2008/09 fiscal year. The agreement will be in operation during the first quarter of 2009. It is prudent to establish a system to track the Commission-purchased equipment as well as expensing the installation and monthly charges related to internet/fax lines for employees who telecommute. The Commission has maintained fixed assets lists of Commission purchased equipment that are maintained at employees' homes. In addition and in accordance with the recommendations of this audit, a formal agreement will be prepared detailing the telecommuting relationship and itemizing the costs to be borne by the Commission, specifically including Commission purchased equipment.

6. *The Commission should report the additional compensation received to the proper taxing authorities.*

The Commission agrees that additional compensation should be reported to the proper taxing authorities. This recommendation is in response to additional benefits implemented by Employee A after the Commission Board approved a \$1.2 million budget cut, which included the reduction of employee incentive bonuses. The Commission, however, wants CDFA to be aware of the circumstances surrounding these additional benefits.

An email was drafted by Employee A and purportedly sent on October 7, 2007, to Board Member A. This email discusses the removal of the incentive plan bonus for senior staff and an extension of a salary freeze for senior staff. In the email Employee A is concerned that morale will be compromised and senior staff may leave the Commission due to the salary and bonus freeze.

Employee A referenced a performance review and direction received from Board Member A to be aggressive and creative with other benefits that offset the loss of compensation. Employee A cites the Travel Flex Time, Early Weekend Getaway, Wellness Benefit and the auto allowance program.

Board Member A does not recall receiving this email correspondence but Board Member A does recall Employee A's performance review which occurred in September 2007, rather than October as cited in the email. Board Member A was not aware of a wellness policy but does have specific recollection of discussing staff morale with Employee A and encouraging the employee to come up with non cash benefits that maintained morale. Board Member A recalls advising Employee A not to touch the budget for these benefits. Board Member A suggested employees leaving early on Friday or

being allowed to work from home on some days. Employee A never brought the issue up with Board Member A again.

The Commission staff was not aware of a Travel Flex Time or Early Weekend Getaway policy. Also, the email does not make reference to the auto benefit policy that had been implemented by Employee A less than three months earlier. This is the only communication to a board member that has been discovered in the Commission's investigations of these policies and their implementation.

The documentation provided to staff by Employee A clearly imply that these policies are authorized by the Commission. The Commission believes that retroactive issuance of W-2s for these benefits is an unnecessary penalty to staff who were unaware that these benefits were not approved. These benefits shall not be continued.

Because the CDFA audit lists revisions to several employees' W-2s as well as publicly listing their compensation totals, it is necessary to state the board's thorough compensation analysis.

The Commission, in 2004 conducted a compensation/incentive review and retained the Hale Group for this purpose. This study reviewed three key compensation drivers: budget, geography, and scope of work. It found that incentive packages are diverse within the industry but that most contain basic benefit categories that are also reflected in the Commission's plan. The review concluded that based upon experience, performance, organizational size, job descriptions and responsibilities -- salaries, incentives and benefits for senior staff members are well in range for similar positions in similar organizations. Historic performance of the Commission had outperformed most California associations and agriculture associations in general. The study also noted that the experience of the Commission management is significantly greater than those in comparable positions.

After review of this survey, the Board determined that the salaries paid to senior staff were appropriate given these various factors. It should also be noted that these figures represent total compensation rather than salary information.

7. *The Commission should determine which expenses were personal in nature and begin collection of these expenses from the employees. The Commission is prohibited from gifting public funds.*

The Commission agrees that it is prohibited from gifting public funds.

The Commission has terminated the auto purchase plan, the career coaching benefits and the wellness benefits. The Commission suspended the auto

allowance implemented in 2007 and returned the benefits to prior approved levels. In addition, the Commission has eliminated the staff lunches.

Reimbursement of specific items purchased through the use of Commission credit cards is addressed in response to Recommendations 17 and 21 below.

8. *The Commission employees should be made aware of all policy changes that impact their cash flow during the year, especially in years in which the Board authorizes a reduction of their budget.*

The Commission agrees that employees should be advised of all policy changes that may impact the employees in a financial manner.

On May 19, 2008, the Board reviewed certain policies and procedures and took immediate action to suspend certain policies. The Commission discontinued the career coaching policy, the home internet/fax line service was terminated and the toll transponder was suspended. The auto allowance was reduced to the 2003/04 level and the monthly fuel allowance was suspended. The Commission credit cards held by individual employees were returned to management and the policy of supplying food or catering lunches for employees was discontinued.

The policy changes were communicated to employees immediately. In addition, other policy changes such as the elimination of the wellness program will occur at the close of the fiscal year to allow the employees some time for transition.

9. *The Commission should review all Committee expenses and determine the total amount spent on family members and the personal amounts spent by employees. The commission should establish an accounts receivable and seek reimbursement of these expenses since these appear to be a gift of public funds.*

The Commission had a policy that if spouse participation in business meetings (conventions, etc.) is justified, expenses incurred would be reimbursed in accordance with Commission guidelines. Spouse participation required approval by an authorized officer of the Commission in advance.

It should be noted that all spouse meal expenses for the Board Planning Meeting were reimbursed in full by the Commissioners.

The Commission is revising its policy to provide that spousal travel will no longer be paid by the Commission. It is still permissible, however, for spouses to attend events with employees when there is a documented business purpose. This is confirmed by CDFA memoranda dated May 3, 2007.

The Commission authorized the Nutrition Advisory Committee annual meeting budget and authorized the expenses of the attendees. For the reasons identified below, it is the Commission's position that the results of the efforts of this Committee and the attendees of these meetings strongly support avocado growers and the public good. The Commission will review the expenses related to the meetings and if it is determined that attendees incurred inappropriate expenses not authorized by the Commission, the Commission shall seek reimbursement.

10. *The Commission should operate their business activities in the best public interest.*

The Commission agrees and believes that its nutrition activities have been in the best public interest. The Commission board was aware and approved the costs associated with the nutrition meetings. The overall benefit to the avocado industry and the State of California demonstrate that the Commission acted in accordance with its statutory mandate.

The California Legislature has identified the production and marketing of avocados produced in this state to be affected with public interest. The Commission is statutorily empowered to provide those engaged in the production of avocados the opportunity to avail themselves of the benefits of collective action in the broad fields of advertising, promotion, production, nutrition, and marketing research, quality and maturity standards, the collection and dissemination of crop volume and related statistics, and public education.

The successful promotion of avocados requires education about the nutritional value of this commodity. In the late 1980's, the Commission formed the Nutrition Advisory Committee. At that time, the general perception of avocado healthfulness was negative; high in calories, high in fat. For example, just over 30% of consumers surveyed in the Commission's tracking study stated they purchased avocados for their "healthfulness" and the media coverage for avocados was predominantly negative.

The purpose of the Nutrition Advisory Committee was to bring renowned nutrition experts from around the country together for a weekend of discussion about nutrition trends and research/messaging opportunities for California avocados. As a result of the input and guidance of the Nutrition Advisory Committee, positive national media coverage has been cultivated, resulting in widespread information about the Mediterranean Diet and the importance of consuming good monounsaturated fats like those found in avocados. Information was provided to the Food and Drug Administration (FDA) and the National Cancer Institute leading to a revised label with a substantial reduction in calories and fat grams as well as expanded nutrition

messaging through the national and California 5 A Day (now Fruits and Veggies More Matters) programs.

Each year, the tracking study has recorded increased awareness of the healthfulness of avocados from just over 30% in the early 90's to 45% in the mid 90's to 65% in early 2000 to more than 70% today. As a result of this program, the Commission has positioned itself as a leader in the field of nutrition and is contacted regularly by scientific organizations and universities conducting nutrition research on avocados.

Attached to this audit response are curriculum vitae and biographies of several of the nutrition educators who participated in this annual meeting. REDACTED REDACTED is a nationally recognized journalist who has written thousands of articles for national newspapers, magazines and e-media including The New York Times, Prevention, Parents, American Baby and Health.com. She is a media resource for the American Dietetic Association. REDACTED the Adjunct Associate Professor for the Department of Food Science and Human Nutrition at the University of Illinois at Urbana-Champaign sits on six scientific advisory boards, has served on committees for the American Academy of Pediatrics, the American Dietetic Association, the American Society for Nutrition, the FDA and several others. REDACTED REDACTE is the Director for the Center for Advanced Functional Foods Research and Entrepreneurship for Ohio State University and is widely cited in scientific publications. REDACTED is the Director of the UCLA Center for Human Nutrition and directs the NCI-funded Clinical Nutrition Research Unit and the NIH Nutrition and Obesity Training Grants at UCLA. He has written more than 160 peer reviewed scientific articles, 40 book chapters and three professional texts.

These are only a few of the educators who agree to participate in a weekend long workshop to educate the Nutrition Advisory Committee on the nutritional benefits of avocados. These experts participate without monetary compensation, but their expenses are covered by the Commission. If the Commission is to retain these experts for a weekend long engagement, the cost per expert would increase significantly. In addition, the Commission would still be required to cover certain per diem costs. This is significantly higher than the cost of dinner and a massage at the Ritz Carlton. Moreover, the educators reported that this approach increased the quality of the discussion and output of the meeting.

The Commission has demonstrated the value of the Nutrition Advisory Committee on the California avocado industry and the public at large. This has been due in large part to this annual meeting. The Commission believes that these meetings have greatly benefitted the public. Even so, because of the economic forces faced by avocado growers, the Commission has not allocated funds for a Nutrition Committee meeting in 2008/09.

In addition, CDFA reviewed and approved the Commission budget each year. The budget included funds allocated for these meetings.

11. *The Commission should enter into written agreements for all professional service rendered.*

The Commission agrees and understands the value of written agreements for professional services. The Commission already uses an agreement for educators which sets forth the services provided and the benefits received by the parties involved. The Commission shall consult with their accountant regarding the need for 1099s.

12. *The Commission should not purchase season tickets to professional sports teams since this use of assessment payer dollars does not appear to be in the best interest of the State. Also, the Commission should determine which tickets were for personal use and collect the amounts from their employees.*

The Commission purchased season tickets for the Mighty Ducks and the Angels. The Ducks tickets were to be used by retailers. A spreadsheet was prepared and labeled with the name of retailers who were given the tickets. The retailers were given the tickets either as recognition of key accounts with the Commission or as door prizes at avocado events. The tickets used by Employee A were labeled by name and the staff was not advised of who used these tickets. On occasion, the tickets were used by staff if a retailer could not be located for the tickets. This use by employees was minimal and their use is noted in the spreadsheets provided to CDFA. Employee A has been requested to account for use of the tickets via legal counsel.

A portion of the payment for last season's Duck tickets included a \$2,000.00 non-refundable down payment towards 2008/09 season tickets. Employee A purchased season tickets for the upcoming season using \$1,000.00 of the down payment. Employee A reimbursed this amount to the Commission. The Commission is investigating the status of the additional \$1,000.00 on deposit with the Ducks organization.

Other than Employee A, the use of tickets by other Commission employees was minimal. This occurred when retailers could not use the tickets. The sports season tickets were characterized as marketing expenses and were not considered a gift of public funds. Commission records indicate Employee A set aside large amounts of tickets for his own use. The Commission has sought information from Employee A regarding the use of these tickets. If no support documenting a business purpose for this use, reimbursement shall be sought.

While the Commission has decided not to purchase season tickets at this time, the Commission believes that the use of sporting events to interact with clients and trading partners has value to the industry and the public at large.

The Commission understands the need for greater transparency to insure adherence to IRS guidelines. Accordingly, if the Commission entertains in this venue in the future, an expense report will be utilized demonstrating the names of the attendees, the business purpose for the event and the matters discussed or goals accomplished with the customer. The Commission shall limit purchases of tickets to eliminate the unintentional use by employees.

13. *The Commission should ensure amounts spent on entertainment are clearly identified within the general ledger. The Commission should consider creating a separate expenditure account within the general ledger to ensure there is full transparency over these types of expenditures.*

The Commission agrees that it is prudent to establish more transparency in the general ledger account items. The Commission has established a Finance Committee to provide greater oversight of financial matters and has established a Bylaw Committee to review Bylaw changes and possible revisions to policies and procedures. Revisions are in process for the travel expense, entertainment policy and the accounting procedures.

Revisions to the applicable financial policies and financial reporting procedures should be in place by the second quarter of 2009. The Commission, in approving the 2008/09 fiscal budget has reviewed certain accounting procedures and is currently reviewing options for a new format for financial reports to provide more detail.

14. *The Commission should consider establishing an accounts receivable for all costs spent by Employee A on capital improvements to his personal residence.*

Employee A built an office at employee's residence. The office was in Employee A's garage which was painted, air conditioned and fully equipped with significant electronics, including several computers, a big screen TV, DVRs and other equipment using Commission funds. Attached is documentation prepared by Employee A explaining the rationale for renovating the garage. The documentation indicates that this was done without Commission Board approval.

After Employee A left the Commission, employee was allowed to purchase certain items that the Commission had maintained on its fixed asset list for fair market value. Employee A submitted a check for \$5,785.77, which represented the agreed fair market value.

Demand was made for full reimbursement for other items such as the flat screen TV and the numerous computer items. Employee A refused to reimburse these items and chose instead to return these items to the Commission. Employee A maintains that these purchases were necessary.

In addition, Employee A charged the Commission for the labor, food and personal items used in the office. There were also additional items of equipment that were purchased on Employee A's Commission credit card that were not listed as fixed assets by the Commission.

The Commission Board was aware that Employee A sometimes worked from home, but was unaware that Commission funds were expended to renovate the garage. Several of these items were purchased without a purchase order and without a bidding process. In addition, the remodel, which in total is a capital improvement, was never approved as part of the budget process.

The Commission agrees that these costs need to be reimbursed and the Commission will seek reimbursement of these funds from Employee A. The Commission has requested further information from Employee A and to date, has received no explanation. The Commission shall begin the collection process by the end of 2008.

15. *The Commission should prepare a final accounting and confirm that Employee A returned or reimbursed the fair market value of all equipment purchased for his home office with Commission funds.*

The Commission agrees that the other equipment items must be returned or reimbursed to the Commission. The Commission is currently finalizing its inventory of equipment items and will initiate collection or return of these items as soon as possible.

16. *The Commission should establish a formal telecommute agreement with any employee that it will allow to telecommute and reimburse for telecommuting costs. The agreement should identify the equipment to be installed as well as on-going expenses that will be reimbursed. Other considerations such as work schedule and expectations should be specified within the agreement; the agreement should be signed by both the employee and their supervisor.*

The Commission agrees and as indicated in response to Recommendation 5, has already initiated the creation of a telecommute agreement that will contain the provisions identified by CDFA. The new agreement will be implemented by the end of the first quarter of 2009.

17. *The Commission should not allow its staff to use Commission credit cards for any personal use.*

The Commission agrees and on May 19, 2008, reaffirmed this policy and required the return of all Commission credit cards as a further safeguard. One card was retained by the Senior Vice President of Finance to facilitate operations of the Commission. As a result, employees must now obtain approval prior to the reimbursement of purchases that are claimed as business expenses which eliminates the need for employee account receivables and reimbursement.

18. *The Commission should review the \$4,300 in credits given to Employee A for the renovation of his home office for appropriateness. A work order, receipt, or invoice should have been considered the minimum supporting documentation for any reduction in Employee A's outstanding balance. If deemed to be personal, the Commission should seek collection from the employee.*

The Commission agrees that adequate supporting documents should be provided for these expenses. Attached are documents submitted by Employee A at the time that reimbursement was sought. They appear to confirm that Employee A authorized these expenses without Board approval. The Commission will seek additional documentation regarding these payments and will also seek reimbursement of these funds from Employee A. The Commission has initiated a request for further documentation and will initiate further collection efforts by the end of 2008.

19. *The Commission should prohibit its employees from using Commission postage meters or any other mailing services for personal use. Although the personal charges were eventually collected, allowing employees to routinely cross the line between performing necessary business transactions that solely benefit the Commission and conducting personal transactions that only benefit the employee weakens the internal controls and exposes the Commission to unnecessary loss.*

On May 19, 2008 the Commission suspended certain benefits previously extended. One of these benefits was use of the Commission express courier or UPS accounts, the Commission postage meter or postage. This suspension is permanent and the activity is now prohibited. As stated above, when the practice was in place, account receivables were used to reimburse the Commission and these funds were collected in full.

20. *The Commission should ensure that any employee that used a Commission credit card restricts the use solely to official business. Allowing employees to purchase personal items with their Commission credit cards should be strictly prohibited.*

The Commission agrees and as stated above required Commission staff to return all Commission credit cards in May, 2008.

The \$1.5 million figure used in the audit to identify credit card charges over the three year audit period is not for personal charges. The Commission credit card was used for many marketing expenses specifically approved in the Commission budget. In addition, the credit card was used for travel expenses, including airfare. The large amount should not be interpreted as an indication of inappropriate spending.

21. *The Commission should identify all personal charges incurred by employees on their Commission credit cards and seek reimbursement from the appropriate employees. These personal amounts appear to be a gift of public funds.*

The Commission has identified personal charges incurred by Employee A on the employee's Commission credit card and has sought further information to support the charges as appropriate business expense. If appropriate support is not received, the Commission will seek reimbursement from Employee A for these personal charges.

The Commission will review employee expense reports to determine if charges appear questionable. If necessary, the Commission will seek further supporting documentation for these charges. If no documentation is provided, reimbursement will be sought. The Commission has sought additional information from Employee A and will initiate collection procedures by the end of 2008, if necessary.

22. *The Commission should ensure that any purchases of food and beverages are ordinary and necessary and are made in the best interest of the public. All expenditures for food and beverages at restaurants should be supported by retaining the detailed restaurant receipt, identifying the persons and affiliations of the persons provided the meal, and properly justified by documenting the business topics discussed and the expected value to be received by the Commission in return.*

The Commission agrees and has implemented new policies. In addition to the revised office operation policies implemented on May 19, 2008, the Board recently approved revised entertainment, travel and expense policies which incorporate the recommendations of CDFA and provide greater Commission oversight.

CDFA specifically noted City of Hope tickets purchased for a fundraising dinner. The Commission has entered into a sponsorship agreement for City of Hope's Los Angeles Walk for Hope to Cure Breast Cancer. A copy of the sponsorship agreement has been provided to CDFA. This included product sampling at the Team Produce Fruit & Vegetable Expo as well as Finish Line Sampling. This sponsorship also afforded the opportunity for web marketing and collateral marketing with the Commission logo on the participant T-shirts.

The Commission views this expense as marketing designed to increase visibility of California avocados to trade (retail/wholesale/foodservice) personnel who make procurement decisions for their companies. This sponsorship was obtained through the Food Industries Circle of Southern California which is heavily supported by Southern California retailers.

The Commission's authorizing statute provides that the production and marketing of avocados produced in this state is hereby declared to be affected with public interest. Cal. Food & Ag. Code sec. 67004. Further, the commission is uniquely situated to provide those engaged in the production of avocados the opportunity to avail themselves of the benefits of collective action in the broad fields of advertising and promotion. Cal. Food & Ag. Code sec. 67005.

The Commission believes that the use of these funds in this manner is in the public interest and as such is not a gift of public funds.

23. *The commission should refer to IRS regulations regarding allowable considerations and deductions of uniform costs. For items that cannot be considered uniforms, the Commission should immediately stop purchasing these items as a Commission expense.*

The majority of clothing purchased for conventions was embroidered. There were times when clothing that was not embroidered was required to be worn at the convention by all the employees working the booth. Typically, this would be slacks of a uniform color. This was done so customers could easily identify staff. Staff had no choice in the decision and the style, color, and print could not be changed to suit their taste. Vendors were selected who could provide clothing in the various sizes and colors needed.

The Commission believes that because staff has no control in the identification of the uniform or the style and because it was for the specific purpose of working a convention event, staff should not be required to purchase the items not embroidered. The Commission has amended its policy to require convention and event attire to include a logo.

24. *The Commission should adhere to the Public Contracts Code. This includes entering into written contracts when appropriate and also following the bidding requirements.*

The Commission agrees that written contracts are appropriate and has acted to enter into contracts with certain vendors. However, it is the Commission's understanding that the Public Contracts Code ("PCC") does not apply to commissions.

On May 3, 2007, a memorandum was issued to all program executives by CDFA addressing the scope and requirements of the fiscal compliance audits the Marketing Branch was initiating. With respect to contracts, the memorandum (attached) stated as follows:

"Failure to competitively evaluate contractors (but note, if there is a competitive evaluation documented, a board not following the specifics of the State Administrative Manual (SAM), the Personnel Administrative Manual (PAM), and Department of Personnel Administration (DPA) guidelines is not relevant or reportable)".

There is no mention of the PCC in the memorandum. During the course of CDFA's audit of the Commission, the auditors provided inconsistent information on bidding requirements. Further, the PCC requires the department, in this case CDFA, to prescribe the following:

- (a) The conditions under which a contract may be awarded without competition and the methods and criteria which shall be used in determining the reasonableness of contract costs when a contract is awarded without competition.
- (b) Any special requirements for evaluating multiple-year contracts which the department deems necessary to protect the financial interest of the state.
- (c) For contracts less than twenty thousand dollars (\$20,000), the conditions under which some or all of the provisions of this article may be waived in order to assist agencies in obtaining services and consultant services in an efficient and timely manner.

None of these conditions have been prescribed by CDFA to the Commission. Perhaps most troubling is CDFA's contention that no evidence was provided that the Commission demonstrated a competitive bidding effort in securing the services of a company which resulted in a \$6.2 million contract for consumer advertising services. In fact, the Commission engaged in the functional equivalent of a competitive bidding process by first securing the services of a public relations search firm. The actual selection of the vendor involved a two month process where candidate agencies submitted consideration materials and were eventually narrowed to six agencies. These agencies were to provide a work assignment and the agencies were further narrowed to three or

four finalists. At this point, a compensation proposal was also provided to the Commission and presentations were given to the Commission committee for final determination and selection. Attached is a memorandum and time line demonstrating the process for this bid.

CDFA representatives were at the board meetings when this search for a new public relations firm was commenced. In addition, CDFA representatives were present when contracts with vendors were discussed and offered no objection.

A chart was prepared for CDFA of all outstanding contracts and the bid status was noted in this chart. Many of these contracts were specialized services which would not require a bid.

Irvine, CA 92618

NAME:	DEPT:
-------	-------

DISTRIBUTION - OFFICE USE	
ACCOUNT NUMBER	AMOUNT

APPROVED BY: _____
 DATE: _____
 CHECK #: _____
 DATE PAID: _____

WEEK ENDING									20
	SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	TOTALS FOR WEEK ▼	
DATE ►									
CITY ►									
BREAKFAST									
LUNCH									
DINNER									
LODGING									
TIPS									
TELEPHONE									
PARKING									
TRANS. (AIR, RAIL ETC.)									
LOCAL TAXI, BUS, TOLLS									
ENTERTAINMENT									
MILEAGE @ c PER MILE									
AUTO EXP. <small>(DO NOT INCLUDE MILEAGE)</small>									
LESS EXP BILLED TO CAC									
MISCELLANEOUS EXPENSES									
TOTALS									

[illegible][illegible]

TOTALS FOR WEEK	AMOUNT
CASH ADVANCE	
TOTAL EXPENSE	
DUE COMPANY	
DUE EMPLOYEE	
BALANCE PAID	

DATE PAID _____

CHECK NO

VOUCHER NO. _____

EMPLOYEE
SIGNATURE _____

APPROVED _____

SEND _____
CHECK _____
TO _____

[illegible]

DISTRIBUTION OFFICE USE		
ACCOUNT NUMBER		AMOUNT
DATE	UNIT	
TOTAL EXPENSE		

www.ramparts.com
info@ramparts.com
www.ramparts.com

ARE SUPPORTING DOCUMENTS ATTACHED?

OFFICE COPY

CALIFORNIA AVOCADO COMMISSION BOARD EXPENSE REPORT FORM

Mail completed form to: Accounts Payable, 38 Discovery #150, Irvine, CA 92618

(Please Print)

Name:							
Address:							
Purpose of Trip/Destination							
CAC Board Meeting	Other (Please Explain)						
CAC Committee Meeting							

	SUN	MON	TUE	WED	THUR	FRI	SAT	TOTALS
Date >>>								
Lodging & Meals*								
1. Room								
2. Breakfast								
3. Lunch								
4. Dinner								
Transportation*								
5. Airline								
6. Taxi/Shuttle								
7. Rental Car								
8. Tips								
9. Tolls/Parking/Other								
10. Gas								
11. Mileage								
Other Expenses*								
12. Telephone/Fax								
13. Postage								
14. Other (see remarks)								

Remarks: (please explain any entries in #14 or #16)

#14

#16

Additional Remarks:

Signed:

(CAC Board Member Signature)

Date:

* Attach supporting receipts for all expenses

FOR ACCOUNTING USE ONLY	
71401 Lodging & Meals	Approved By:
71401 Transportation	Date Approved:
71401 Mileage: Miles @ \$.585 = \$	Check No:
71401 Other Expenses	Check Date:
Total Expense Claim: \$	

*MILEAGE RATE INCREASE TO \$.585 BEGINNING 07/01/08

REDACTED



REDACTED



September, 2008

REDACTED



REDACTED



REDACTED



REDACTED



REDACTED



REDACTED



REDACTED



REDACTED



REDACTED

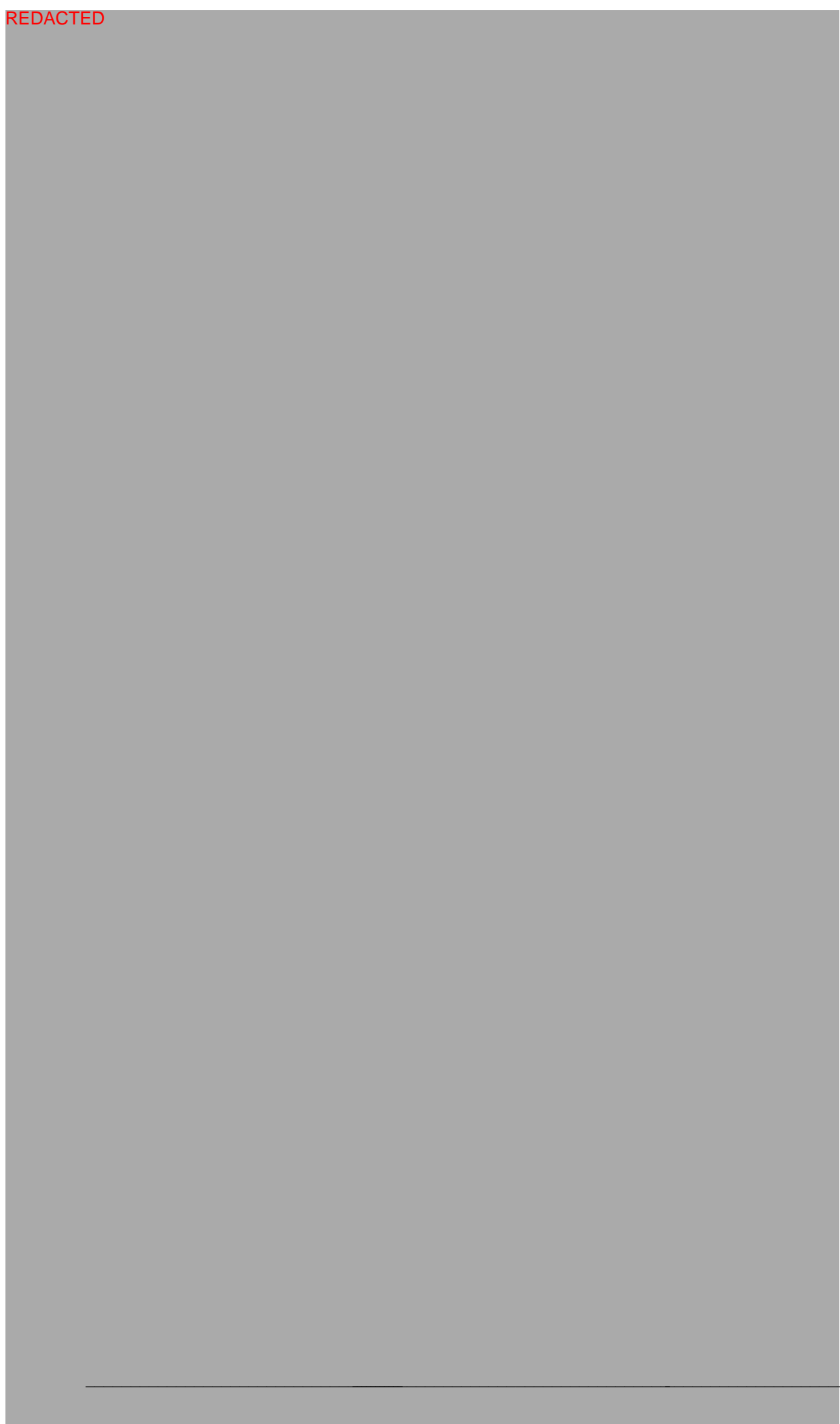


REDACTED



REDACTED

REDACTED







REDACTED



REDACTED



California Avocado Commission
Expense Report

SCANNED

Original

Expense Report: Home Office Remodel 2007
Expense Report #: ERHOR2007

REDACTED
Month: Feb-March 2007

No	Date	Miscellaneous Expenses Itemized Place/ Vendor	Description	Page	Amount	Amex/ Cash	Amex	Cash	Account Number
1	02/10/07	Lowes	Supplies for Home Office Remodel 2007	1	\$ 411.59	Amex	\$ 411.59	\$ -	72102
2	02/11/07	Crown Hardware	Supplies for Home Office Remodel 2007	1	\$ 45.19	Amex	\$ 45.19	\$ -	72101
3	02/11/07	Crown Hardware	Supplies for Home Office Remodel 2007	1	\$ 19.37	Cash	\$ -	\$ 19.37	72101
4	03/04/07	Crown Hardware	Supplies for Home Office Remodel 2007	2	\$ 41.96	Amex	\$ 41.96	\$ -	72101
5	03/03/07	Home Depot	Supplies for Home Office Remodel 2007	2	\$ 279.04	Amex	\$ 279.04	\$ -	72102
6	03/03/07	Crown Hardware	Supplies for Home Office Remodel 2007	2	\$ 52.11	Amex	\$ 52.11	\$ -	72101
7	03/10/07	Lowes	Supplies for Home Office Remodel 2007	3	\$ 249.00	Cash	\$ -	\$ 249.00	72102
8	03/10/07	Home Depot	Supplies for Home Office Remodel 2007	3	\$ 489.48	Amex	\$ 489.48	\$ -	72102
9	03/26/07	Longs	Supplies for Home Office Remodel 2007 Personal	4	\$ 91.05	Amex	\$ 91.05	\$ -	72101
10	03/17/07	Lowes	Supplies for Home Office Remodel 2007	5	\$ 88.58	Amex	\$ 88.58	\$ -	12009-701
11	03/03/07	Lowes	Supplies for Home Office Remodel 2007	5	\$ 56.44	Amex	\$ 56.44	\$ -	72101
12	03/04/07	Crown Hardware	Supplies for Home Office Remodel 2007	6	\$ 86.44	Amex	\$ 86.44	\$ -	72101
13	03/03/07	Crown Hardware	Supplies for Home Office Remodel 2007	6	\$ 7.71	Cash	\$ -	\$ 7.71	72101
14	03/03/07	Crown Hardware	Supplies for Home Office Remodel 2007	6	\$ 134.63	Amex	\$ 134.63	\$ -	72101
15	03/18/07	Home Depot	Supplies for Home Office Remodel 2007	7	\$ 27.42	Amex	\$ 27.42	\$ -	72101
16	03/03/07	Lowes	Supplies for Home Office Remodel 2007	7	\$ 144.60	Amex	\$ 144.60	\$ -	72101
17	03/17/07	Staples	Supplies for Home Office Remodel 2007	8	\$ 74.76	Amex	\$ 74.76	\$ -	72101
18	03/17/07	Home Depot	Supplies for Home Office Remodel 2007	8	\$ 129.28	Amex	\$ 129.28	\$ -	72102
19	03/10/07	Lowes	Supplies for Home Office Remodel 2007	9	\$ 351.86	Amex	\$ 351.86	\$ -	72102
20	03/04/07	Home Depot	Supplies for Home Office Remodel 2007	10	\$ 112.77	Amex	\$ 112.77	\$ -	72101
21	03/04/07	Staples	Supplies for Home Office Remodel 2007	10	\$ 60.30	Amex	\$ 60.30	\$ -	72101
22	03/04/07	ATM Withdrawal	Cash paid for labor	10	\$ 307.04	Amex	\$ 307.04	\$ -	72102
23	03/17/07	Crown Hardware	Supplies for Home Office Remodel 2007	11	\$ 400.00	Cash	\$ -	\$ 400.00	72101
24	03/04/07	Crown Hardware	Supplies for Home Office Remodel 2007	11	\$ 39.20	Amex	\$ 39.20	\$ -	72101
25	03/17/07	Crown Hardware	Supplies for Home Office Remodel 2007	11	\$ 21.54	Cash	\$ -	\$ 21.54	72101
26	03/22/07	ATM Withdrawal	Cash paid for labor	11	\$ 1.93	Cash	\$ -	\$ 1.93	72101
27	03/25/07	Target	Supplies for Home Office Remodel 2007	11	\$ 300.00	Cash	\$ -	\$ 300.00	72101
28	03/12/07	Crown Hardware	Supplies for Home Office Remodel 2007	12	\$ 117.10	Amex	\$ 117.10	\$ -	72101
29	03/24/07	Target	Supplies for Home Office Remodel 2007	12	\$ 24.19	Amex	\$ 24.19	\$ -	72101
30	03/03/07	Staples	Supplies for Home Office Remodel 2007	12	\$ 4.84	Cash	\$ -	\$ 4.84	72101
31	03/17/07	ATM Withdrawal	Cash paid for labor	12	\$ 463.30	Amex	\$ 463.30	\$ -	72102/72101
32	03/10/07	ATM Withdrawal	Cash paid for labor	12	\$ 400.00	Cash	\$ -	\$ 400.00	72101
33	03/04/07	Crown Hardware	Supplies for Home Office Remodel 2007	13	\$ 400.00	Cash	\$ -	\$ 400.00	72101
34	03/18/07	Linens n' Things	Supplies for Home Office Remodel 2007	13	\$ 75.34	Amex	\$ 75.34	\$ -	72101
35	03/07/07	ATM Withdrawal	Cash paid for labor	13	\$ 142.13	Amex	\$ 142.13	\$ -	72101
36	02/10/07	ATM Withdrawal	Cash paid for labor	14	\$ 500.00	Cash	\$ -	\$ 500.00	72101/71104
37	02/11/07	ATM Withdrawal	Cash paid for labor	14	\$ 500.00	Cash	\$ -	\$ 500.00	71104
38	02/21/07	ATM Withdrawal	Cash paid for labor	14	\$ 400.00	Cash	\$ -	\$ 400.00	72101
39	02/13/07	ATM Withdrawal	Cash paid for labor	14	\$ 400.00	Cash	\$ -	\$ 400.00	72101
40	02/17/07	ATM Withdrawal	Cash paid for labor	14	\$ 300.00	Cash	\$ -	\$ 300.00	72101
		Sub Total			\$ 8,050.19		\$ 3,845.80	\$ 4,204.39	

Total	REDACTED	\$ 8,050.19	\$ 3,845.80	\$ 4,204.39
-------	----------	-------------	-------------	-------------

Distribution - Office Use	
Account #	Amount
Furniture - 72101	\$ 4,500.00
Office Equipment - 72102	\$ 2,500.00
Office Expense - 71104	\$ 961.60
Staff Reimbursable - 12009-701	\$ (4,115.81)
Amex suspense - 71473	\$ (3,845.80)
Total Expenses	\$ -

Check No.	Applied Debit
Check Date	5/19/07
Total Expense	\$ 8,050.19
Personal	\$ 88.58
A) Total CAC Expense	\$ 7,961.61
B) Due Company (AMEX)	\$ (3,845.80)
Over 06/07 Wellness	
Less Cash Advance	
Difference (A-B)	\$ 4,115.81
Balance Paid (owed)	\$ 4,115.81

THE HOME DEPOT
REDACTED

SALE 6668 00010 31723 03/04/07
11 AEK3FC 03:09 PM



739348001966 TUB CADDY <A> 7.99
755858200712 6' FLONGTABLE <A> 47.97
SUBTOTAL 55.96
SALES TAX 4.34
TOTAL \$60.30
XXXXXXXXXX RE AMEX 60.30 ✓
AUTH CODE 582554/3107650 TA



6668 10 31723 03/04/2007 7512

RETURN POLICY DEFINITIONS
POLICY ID DAYS POLICY EXPIRES ON
A 1 90 06/02/2007

HUR

STAPLES CAC
AMEX
that was easy.

Low prices. Every item. Every day.
110% Price-Match. Guaranteed.

REDACTED

(949) 635-1870

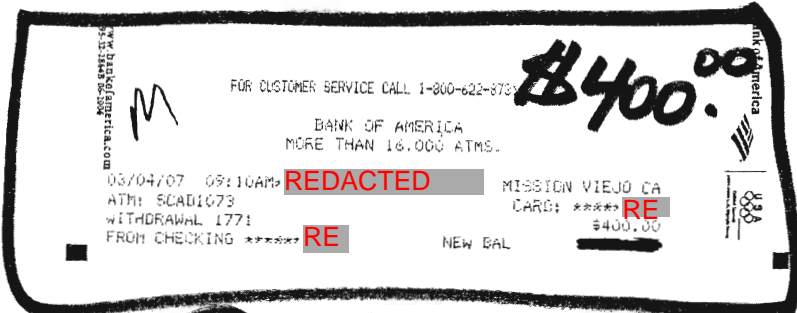
SALE 547594 7 003 73023
1300 03/04/07 10:36
QTY SKU OUR PRICE

REWARDS NUMBER 2642985984

1	SITUATION COMP STA	
	430593	159.99
2	GEMINI BOOKCASE -	
	635564 49.990ea	99.98
1	18X26 PERSONAL TAB	
	674785654910	24.99
	SUBTOTAL	284.96
	Standard Tax 7.75%	22.08
	TOTAL	\$307.04

American Express 307.04 ✓
Card No.: XXXXXXXXXXXX RE <S>
Auth No.: 643047

HUR



CASH LABOR

(110)

REDACTED
 YOUR RECEIPT IS YOUR GUARANTEE
 ACE... THE HELPFUL PLACE
 3/17/07 9:01 EA 251 SALE

 41780 2 FT .69 FT
 FT 1-1/2" ABS DWV PIPE 1.38
 11899 1 EA 3.50 EA S
 120Z GLOSS WHITE RUSTOLEUM SP 3.50
 11899 9 EA 3.50 EA S
 120Z GLOSS WHITE RUSTOLEUM SP 31.50

SUB-TOTAL: 36.38 TAX: 2.82
 TOTAL: 39.20
 RC AMT: 39.20 ✓
 BK CARD#: XXXXXXXXXX RE

HOR

\$300.00

FOR CUSTOMER SERVICE CALL 1-800-622-6731

BANK OF AMERICA
MORE THAN 16,000 ATMS.

03/22/07 03:01PM REDACTED MISSION VIEJO CA
 ATM: SCAD1073 CARD: **** RED
 WITHDRAWAL 4624 \$300.00
 FROM CHECKING ***** RE NEW BAL

CASH LABOR

REDACTED
 YOUR RECEIPT IS YOUR GUARANTEE
 ACE... THE HELPFUL PLACE
 3/04/07 9:17 WD 251 SALE

 1209741 1 EA 19.99 EA
 GL THOMPSONS ADVANCE WATERSEA 19.99
 SUB-TOTAL: 19.99 TAX: 1.55
 CASH TEND: 21.54 TOTAL: 21.54 ✓
Cash

REDACTED
 YOUR RECEIPT IS YOUR GUARANTEE
 ACE... THE HELPFUL PLACE
 3/17/07 9:55 EA 251 SALE

 49690 1 EA 1.79 EA
 2"X1-1/2" ABS DWV REDUCING CU 1.79
 SUB-TOTAL: 1.79 TAX: .14
 CASH TEND: 2.00 TOTAL: 1.93
 CASH CHANGE: .07 ✓
Cash

[Signature]

(11)



REDACTED

03/25/2007 10:10 PM
RECEIPT EXPIRES ON 06/22/07

CASH

A receipt dated within 90 days is required for ALL returns & exchanges. Giving a gift? Include a gift receipt!

078102802	CLOCK THERM	1	59.99
085033289	HOCK KILL	1	6.99
085041016	207 GOR GLUE	1	4.99
085033496	CURT HOOK	1	3.29
085050084	KNIFE	1	8.44
085050843	KNIFE BLADES	1	4.99
092070426	THIN APC MG	1	19.99

Subtotal 108.68
1 = CA TAX 7.7500% on 108.68 8.42
TOTAL 117.10

HOR RE AMEX CHARLE 117.10

REDACTED

CASH

3/12/07 4:16 PM 252 SALE

11073556 5 EA 4.49 EA
BONUS WHITE RUSTOLEUM SPRAY 22.45

SUB-TOTAL: 22.45 TAX: 1.74

TOTAL: 24.19

DU AMT: 24.19

IN CASH: XXXXXXXX

HOR



REDACTED

03/24/2007 02:21 PM
RECEIPT EXPIRES ON 06/22/07

CASH

008000604 6FT CABLE T 4.49

Subtotal 4.49
1 = CA TAX 7.7500% on 4.49 0.35
TOTAL 4.84

CASH PAYMENT 5.00
CHANGE DUE 0.16

HOR

**CASH
LABOR**

STAPLES

that was easy.

Low prices. Every item. Every day.
110% Price-Match. Guaranteed.

REDACTED

(949) 635-1870

SALE 617610 1 001 57977

1300 03/03/07 03:06

QTY SKU OUR PRICE

REWARDS NUMBER 2842985584

1 LANE BROWN LEATHE
645215 349.99

1 ZLINE GEMINI L COM
497474 79.99

SUBTOTAL 429.98

Standard Tax 7.75% 33.32

TOTAL \$463.30

American Express

Card No.: XXXXXXXXXX

Auth No.: 651752

463.30

HOR

FOR CUSTOMER SERVICE CALL 1-800-622-8731

BANK OF AMERICA
MORE THAN 16,000 ATMs.

03/17/07 12:08PM

ATM: SCAD3338

WITHDRAWAL 5454

FROM CHECKING *****

REDACTED

LAKE FOREST CA

CARD: *****

\$400.00

NEW BAL

\$400.00

FOR CUSTOMER SERVICE CALL 1-800-622-8731

BANK OF AMERICA
MORE THAN 16,000 ATMs.

03/10/07 01:24PM

ATM: SCAD1073

WITHDRAWAL 2813

FROM CHECKING *****

REDACTED

MISSION VIEJO CA

CARD: *****

\$400.00

NEW BAL

\$400.00

(12)

~~CASH LABOR~~

C
A
S
H

L
A
B
C
R

BANK OF AMERICA
MORE THAN 16,000 ATMS.

2/10

02/10/07 02:45PM * REDACTED
ATM: SCAD1073
WITHDRAWAL 7529
CARD: *****
\$50 ACT
ED
NEW BAL

\$500.00

BANK OF AMERICA
MORE THAN 16,000 ATMS.

2/11

02/11/07 08:56AM * REDACTED
ATM: SCAD1073
WITHDRAWAL 7612
CARD: *****
\$40 ACT
ED
NEW BAL

\$400.00

BANK OF AMERICA
MORE THAN 16,000 ATMS.

2/21

02/21/07 05:39PM * REDACTED
ATM: SCAD1073
WITHDRAWAL 9162
CARD: *****
\$40 ACT
ED
NEW BAL

\$4000.00

FOR CUSTOMER SERVICE CALL 1-800-622-8731

BANK OF AMERICA
MORE THAN 16,000 ATMS.

02/13/07 04:13PM * REDACTED
ATM: SCAD0929
WITHDRAWAL 7177
FROM CHECKING *****
CARD: *****
\$300 ACT
ED
NEW BAL

\$300.00

FOR CUSTOMER SERVICE CALL 1-800-622-8731

BANK OF AMERICA
MORE THAN 16,000 ATMS.

02/17/07 03:59PM * REDACTED
ATM: SCAD1073
WITHDRAWAL 8604
FROM CHECKING *****
CARD: *****
\$300 ACT
ED
NEW BAL

\$300.00

Bank of America
Bank of America
Bank of America
Bank of America
Bank of America
Bank of America
Bank of America
Bank of America

May 3, 2007

TO THE PROGRAM EXECUTIVE ADDRESSED:

Since the Department announced the Marketing Branch would be conducting compliance audits the Branch has had the opportunity to meet and talk with many stakeholders. After considering the feedback received the Branch has decided to clarify the scope of these audits. For the first cycle of audits the Auditors are asked to determine whether or not activities and expenditures incurred comply with the law and are within board authority.

Sometimes this assessment requires judgment. The Branch does not intend to substitute its judgment for the boards' except where an issue is a violation of law.

Therefore while the audit work papers will reflect everything found, reporting will be limited to:

- Violations of the Bagley-Keene Open Meeting Act;
- Violations of the Political Reform Act;
- Violations of the constitutional prohibition on pledging the credit of the state (i.e., gifts of public funds);
- Failure to competitively evaluate contractors (but note, if there is a competitive evaluation documented, a board not following the specifics of the State Administrative Manual (SAM), the Personnel Administrative Manual (PAM), and Department of Personnel Administration (DPA) guidelines is not relevant or reportable);
- Expenditures not authorized by a board's enabling Act, board action reflected in minutes of a board meeting or written policy in effect before the expenditure;
- Where a board has a policy on an expense item (such as travel) audit staff will audit to conformity to that policy;
- If a board does not have a policy on a travel expense item, the audit will report expenses that exceed 3 times the State rates for the area (per diem as well as hotel) unless the expenses were incurred to entertain trading partners, buyers, persons who open markets, talent, or key guests similarly involved in enhancing or holding market share. Then the benchmark will be what the board can demonstrate to be the course of practice for a trade association.

To be clear, any expenditure that contradicts the law (e.g., air fare for family) is a compliance issue which will be reported in the audit.

To help illustrate travel-related points, here are a couple of scenarios: Joe flies to Japan to meet with buyers. The program is authorized by its enabling statute to open foreign markets. The audit would report if Joe flew first class, but not if he flew business class. Similarly, the audit would report out if Joe incurred a hotel charge that exceeded \$750 per night, but not \$250. The audit would note a meal for him in excess of 3 times the State's per diem but not if it is part of a dinner with buyers. Buyer dinners would be limited to what the traffic would bear. If Joe brought his wife on the trip none of her expenses would be allowable except those associated with the business dinner if she attended. That is business custom and it serves a business purpose.

Another Scenario: Joe travels to a Santa Barbara resort as part of an annual meeting.

- If Golden Leaf Company pays his travel and maybe that of his family. This would be reported because it raises Political Reform Act issues.
- If Joe flies business class or charter jet at \$1,200. Coach is \$360. The choice of business class over coach will be reported. However if his wife attends the annual dinner. There is a business purpose for this.
- If the aggregate cost of the meal divided by the persons present exceeds 3 times the State's per diem per person then that fact is reportable.

If in response to a preliminary audit a board identifies a colorable public purpose for an expenditure authorized by its enabling Act and the Department, the expenditure will not be reported in the final audit unless it independently crosses over one of the other categories above.

The Board may request a separate management letter that identifies, without judgment as to appropriateness, any expenditure that falls between State agency practice and the reporting parameters.

Please contact me if you have any questions or would like further information regarding the audit process.

Sincerely,

Original signed by:

Robert Maxie, Chief
Marketing Branch

cc: Ron Shackelford, Chief
Audits

RNM:cm

SELECT RESOURCES
INTERNATIONAL

California Avocado Commission
Agency Review Process and Timetable
March 23, 2007

- 3/23 Submit proposal to California Avocado Commission. Client receives Client Input Documents (CID). SRI starts researching contender agencies
- 3/27**** Joint SRI / California Avocado Commission meeting by phone to complete CID and discuss details / expectations for the review moving forward
- 3/28 SRI develops Agency Brief and finalizes consideration set
- 3/29 SRI forwards Brief to Client for approval
- 3/30 SRI distributes Brief and contacts candidate agencies via telephone to pre-screen for interest and conflicts and help expedite materials preparation
- 4/11 Candidate responses and materials due at SRI
- 4/13**** Client / SRI Long List meeting at California Avocado Commission to review agency submissions and narrow to 6 agencies to visit for Chemistry Check meetings. Client / SRI to discuss work assignment and review schedule for remainder of the review process
- 4/16 SRI notifies agencies and informs them of their status. SRI schedules Chemistry Check meetings at agencies' offices and distributes approved Chemistry Check Brief
- w/o 4/23**** Chemistry Check meetings at agencies. Client narrows list to 3 - 4 finalists
- 4/27 SRI notifies all agencies and informs them of their status. SRI distributes Finalist Work Assignment to finalist agencies and schedules Briefing Day, Work Sessions and Final Presentations
- 5/1**** Briefing Day at California Avocado Commission followed by individual Q&A breakout sessions with finalist agencies.
- 5/4 SRI processes request for compensation proposals and any additional details regarding finalist meetings
- 5/10 – 5/11**** Work Sessions at California Avocado Commission
- 5/18 Compensation proposals due
- 5/23 – 5/24**** Finalist Presentations
- w/o 5/28 Agency selection and awarding the account

**** Denotes Key Client Meeting**

SELECT RESOURCES INTERNATIONAL

March 23, 2007

REDACTED

REDACTED

CALIFORNIA AVOCADO COMMISSION
38 Discovery, Suite 150
Irvine, CA 92618

Re: Agency Search

REDACTED

It was great to get a call yesterday from REDACTED who said you are looking to do an advertising review and are interested in working with SelectResources given your positive PR review experience with us. I enjoyed talking with you on the phone and hope we will have the opportunity to work together on this project.

As we discussed, the purpose of this proposal is to provide an overview of our advertising review process, a suggested timeline based on the input you provided and our proposed fee. I have also included a recap of our credentials. I know you have worked with us, but I thought this may be helpful given that it has been a couple of years!

Background

You have been working with Colby & Partners since 1997 as your advertising agency of record for California avocados. They were retained in 2004 to also handle the HASS avocado board advertising. Recently you have decided to split these assignments. While Colby will retain the HAB advertising assignment, you want to find a new agency partner for the California Avocados account. The new agency will handle both the creative and the media (planning and buying).

With your offices located in Irvine, you would prefer to work with an agency with offices in Southern California, although you are potentially open to the San Francisco area as well if you find the right partner. From a timing standpoint, your planning process is getting underway and you would like to identify your new partner in the next eight weeks if possible. Accordingly, the timeframe I am proposing works to accomplish a thorough review that would conclude by the end of May.

Colby & Partners knows that they will be retained for the HAB account, but they will not be participating in this review for California Avocados.

Credentials and Key Players' Role

To recap who we are and what we are all about, SelectResources International is a management consulting company that specializes in helping marketers find and nurture optimum partners in communication. Since our inception nearly fifteen years ago, we have established ourselves as the premier strategic search consulting firm in the country, having managed and completed over 380 reviews, searches and projects involving over \$8 billion in media billings. 70% of the partnerships

we've helped create during the past 5 years are still in place, a statistic well ahead of the industry average.

As much as we pride ourselves on our successful client relationships, we are also proud of the respect and professional validation we receive from the agency community. ADWEEK magazine ran a cover story entitled "What Agencies Think of Search Consultants." 30 of the nation's top ad agencies evaluated 12 of the most active search consultants in the following areas:

- which consultants are the most organized?
- which understand agency cultures the best?
- which broker the best agency/client marriages?
- which are the most unbiased?
- which best facilitate interaction between client and agency?
- which are the easiest to work with on a personal level?
- which most respect agencies' time and money?

One company dominated the survey by placing first in 6 of 7 categories. That firm was us—SelectResources International (we missed first place in the seventh category by a fractional margin).

There is no substitute for experience. The breadth and depth of our experience is summarized in the attachments. As you can see, the key members of our team have spent their entire careers in brand and advertising management. In our past lives, we've served as agency CEOs, CFOs, senior agency executives and senior client marketing professionals.

Many factors differentiate SRI from other search consultants including our rigorous process described below. However, there are two factors I want to emphasize. First, our facilitator philosophy ensures that our clients make all the decisions. Our role is strictly to help our clients define their needs, make sure they get exposed to the best resources that meet them and provide optimum conditions for their assessment. SRI prefers to work as unobtrusive and objective consultants. In sum, we facilitate the process; our clients make all the decisions.

Second, as consultants focused exclusively on client/agency relationship management, we maintain close, up-to-date relationships with the "best and the brightest" agencies of all sizes and capabilities worldwide, and offer what we feel to be unmatched knowledge of today's agency marketplace. Every year, our partners and I *each* independently visit over 100 agencies across the country *in their offices*. We meet their principals, see their latest work, assess their culture and understand their core competencies. Beyond this unprecedented due diligence, we host, on average, two agencies every day at our offices in Santa Monica. We know what agencies can and cannot do, the importance of achieving the right corporate and cultural fit, and how to help clients find and nurture enduring, mutually profitable, win-win relationships based on successful results in the marketplace. Potential contenders for each review are selected drawing on this knowledge against each client's specific criteria, needs, wants and expectations for its agency partner. Beyond this, SRI subscribes to the AAAA/ANA jointly endorsed guidelines in conducting our searches.

I will lead your review working together with another SRI Senior Partner, **REDACTED** (Please see our bios attached.) In addition, we have a support staff of 4 full-time professionals—each of whom plays an important role as a member of our team from start to finish on every project we handle.

Our Specific Approach

1. Client Input Process. Upon initiation of the project we will ask you to complete a custom designed confidential Client Input Document™ (CID). This document is not unlike a comprehensive creative brief. It defines the scope of the review, the issues involved and basically provides all the information we will need to communicate effectively with candidate agencies. Importantly, it also serves as the basis for achieving consensus among your team to ensure that everyone is reading off the same page as we go through the pre-screening, evaluation and agency selection process. Given the timing of this project, we would suggest doing this input meeting over the phone so that we could discuss your answers and be able to move ahead as quickly as possible. You will see this reflected on the attached timetable.

Development of the Initial Candidate Pool. Based on the completed CID, as well as our knowledge of the agency resource universe and our discussions, we research and identify a pool of potential contenders. Based on your approval of this consideration set, we develop the Agency Brief, which upon approval, will be used to personally pre-screen and qualify candidate agencies. SRI will pre-screen the agencies by telephone and ultimately ask each pre-qualified agency to respond to our request for comprehensive capabilities and credentials information. These will include: (1) a letter of intent that speaks specifically to the brief; (2) a one page Fact Sheet™; (3) a response to our comprehensive Agency Questionnaire; (4) a DVD capabilities presentation not to exceed 8 minutes including samples of the agency's best creative work; (5) a DVD presenting 2 case studies of their most relevant work that highlights their strategic, creative and media capabilities and results for the given client; and (6) Print samples. In requesting these materials, we are always very specific regarding the information agencies need to provide so that the candidates can be compared on an apples-to-apples basis.

SRI will then evaluate and organize the responses from some 12 – 15 candidate agencies in advance of a joint meeting.

2. Review of Candidate Pool/Selection of Contenders. We will meet at your offices for an all-day work session. The goal of this meeting will be to narrow the list to approximately 6 contender agencies. During this meeting we will flesh out the balance of the review process to include specific meeting dates for all subsequent meetings. We will also discuss and agree on the content of the Chemistry Check Brief and Finalist Assignment.
3. Chemistry Check/Work Session Meetings. As a next step, we arrange with your team to meet the short listed agencies. This always takes place at their offices. We would schedule and brief the agencies in advance of these meetings both verbally and via a Chemistry Check/Work Session Brief. The meetings are usually 2 hours in length and are very productive and much more focused in that your team have already seen the agencies' credentials and the agencies have been carefully briefed regarding the key issues they will need to address.

These might include: an in-depth discussion about their creative and media philosophies, and creative and media development processes; the specific target audience experience and capabilities of the proposed lead team; case histories demonstrating a track record of success with other competitive categories, etc.; expanding on a relevant case study that will provide deeper insights into how they think and work; and a drill down on their research, account planning and non-traditional tactical work.

Importantly, the specific content for these meetings will be derived from what the California Avocado Commission needs to know in order to determine how each agency can best address the totality of its brand advertising needs, both now and in the future. It also provides an opportunity to assess chemistry with the client team as well as fit with your culture and work style. Perhaps the most important component of these meetings however, will be to give the contenders the

opportunity to initiate a direct dialog with the Review Committee, ask probing questions about the California avocado situation and share their initial thinking about handling your account and key communications challenges, such as where is California avocado's current work succeeding or falling short? How do you see taking the company's advertising to the next level, etc.? It really is the only time in the process where you can get totally objective feedback and commentary. Usually our clients find this very helpful. Following these meetings, your goal will be to select 3 - 4 finalists. We will notify the runner-ups and finalists and coordinate handling the trade press (if desired) in accordance with your company policy.

4. Finalist Assignment. Finalists will be evaluated on the completion of a strategic creative and media assignment. Normally, we give the agencies one month from their receipt of the assignment to the final presentations. Given your timing needs, we will have to cut this short by a week or so, but it is very doable. The specific assignment should be designed to enable the California Avocado Commission to assess the strength of the agency team assigned to its account; their strategic and creative "smarts;" the depth of their resources and expertise in key marketing and communications disciplines of interest; and their compatibility with the client team and corporate culture. Our process has been very successful in bringing about work that ends up being produced. We avoid make-work and always focus on real life deliverables.

SRI will help prepare and distribute the Finalist Assignment Brief while your team compiles any additional information the agencies may need in order to execute the assignment. We will also assist with the processing of Confidential NDAs prior to the release of any sensitive information to the agencies. Finally, we will handle the scheduling of the Briefing Sessions, Work Sessions and Finalist Presentations.

5. Briefing Day. Shortly after sharing the Work Assignment with the finalist agencies, we will schedule a Briefing Day for the finalist agencies at your offices. This will provide your team the opportunity to share relevant background information. This can usually be accomplished in a group setting. Following the group presentation, we would schedule individual break-out meetings with each agency and the Review Committee. Ideally, these will be representative of how it would happen if you were already working together and initiating an important assignment with your agency team. It gives each agency an opportunity to ask key questions as they begin their work. We are happy to attend these meetings if we can be of help, however, this day is your team's opportunity to present important information to the finalists about your business and needs to be managed by you and your team.
6. Interim Client/Agency Work Sessions. We like to include interim 2-hour work sessions midway during the Finalist Assignment. These are always very informative and differentiating meetings during which meaningful dialogs and exchanges take place. We have found that they give our clients a much better sense of how each agency thinks and works and how it feels to work together. These meetings are usually highly strategic with the ultimate goal of providing the agency with valuable feedback so that both parties will leave with much greater confidence in the directions being pursued. Sometimes they incorporate hands-on tissue sessions. Whereas we normally do not attend the initial Chemistry Check Meetings or the Finalist Presentations, we make it a practice to attend these meetings in order to monitor progress, assess how the relationships are developing and be available to better address post-meeting questions and issues.
7. Pre-screening of Compensation Proposals. Concurrent with and as part of the Finalist Assignment, SRI will request and evaluate compensation proposals from each of the finalists. These will be based on their own sense of what it will take to service the account, plus the anticipated workload and staffing scenarios as described in the Client Input Document™. The objective is to provide the California Avocado Commission with apples-to-apples competitive pricing information as well as new insights on how best to negotiate with the selected agency once you've reached a decision. We will provide a detailed analysis of each compensation

proposal based on a number of benchmark measurements. We will also provide counsel with respect to negotiation tactics. Normally, our clients choose to handle the negotiations themselves, with SRI playing a behind-the-scene role. However, we are flexible with respect to our participation during this final phase.

8. Finalist Presentations. The 3 - 4 finalist agencies will travel to your headquarters to make their final presentations to the Review Committee. These meetings are usually 2 1/2 hours in length and will extend over two days. This leads to the selection of the winning agency and the runner up, but not yet to the official awarding of the account. Our participation at these meetings is optional.
9. Awarding of the Account. Once you have selected the winner, you will want to meet with the selected agency to clarify and agree on the Terms of Engagement before the official awarding of the account. Our clients normally notify the winner directly. "We have decided we would like to work with you guys, but before we officially award the business, there are some issues we need to discuss."

Following the final decision, SRI will take on the task of notifying the runner ups—but we strongly urge our clients to meet or de-brief with each finalist at a later date to give them first-hand feedback as to why they were not selected. Each finalist will very likely have invested a significant amount in the pitch process and they deserve to understand how they performed as well as the reasoning behind your final decision.

Timing and Costs

We are ready to get going as soon as you give the go ahead. Attached is a suggested timetable that lays our process out against the calendar. Optimally, we need approximately three months from start to agency selection, but knowing you would like to complete the process in 8 weeks, we have worked to make this possible, but it will mean that we need to begin as early as Monday and stay on track with key dates. This timetable has us wrapping-up the process by the end of May. Hopefully this will work for you.

Our all-inclusive fee is \$32,500, plus any authorized expenses billed at cost. While your PR review came in at \$30,500, it was completed in 4 weeks versus the estimated 8 weeks that we will be working with you on this project.

Our fee covers:

1. facilitating the client input process
2. all research and the time involved in pre-screening additional potential contenders
3. drafting the Agency Brief
4. collecting, organizing and analyzing the agencies' submissions in preparation for the Long List Meeting
5. briefing and coordinating with the various agency candidates throughout the review process
6. scheduling of all meetings
7. helping to develop and write the Chemistry Check/Work Session Brief and the Work Assignment
8. preparing customized evaluation matrices for each meeting
9. providing on-going guidance and counsel as needed
10. attending the Long List Review, Agency Work Sessions and optionally, the Briefing Day and Final Presentation meetings
11. pre-screening and evaluating agency compensation proposals
12. providing counsel on compensation negotiations as required

One-half of our fee, \$16,250 would be due at the start of the project, with the balance due upon completion of the review and the official awarding of the account. While not required, we also recommend that you consider a nominal stipend for each finalist runner-up to cover a portion of their out-of-pocket expenses. They may elect to use these funds to offset out-of-pocket expenses (i.e., research) they will very likely incur during the course of the review.

RED we feel very confident we can do a terrific job again for the California Avocado Commission and that retaining us for this project will prove well worth the investment. We look forward to discussing our proposal in more depth and answering any further questions you may have. Thank you for the opportunity to work with you and your team.

Sincerely,

REDACTED

SelectResources International

Attachments

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the California Avocado Commission, for its review and response. We have reviewed the response and although we are satisfied with most of their responses, we'll need to clarify two recommendations.

Recommendation 6 stated, "The Commission should report the additional compensation received to the proper taxing authorities." After reading the Commission's response, our office was unclear as to whether the Commission would be reporting the additional compensation to the proper authorities. However, subsequent to receiving the Commission's response, our office has been informed by the Commission's legal counsel that the Commission will report the compensation to the proper authorities.

Recommendation 10 stated, "The Commission should not purchase season tickets to professional sports teams since this use of assessment payer dollars does not appear to be in the best interest of the State..." The Commission appears to disagree with our evaluation. However, our office believes these expenses should not be incurred in the future.

DISPOSITION OF AUDIT RESULTS

The findings in this report are based on fieldwork my staff performed between June 9, 2008 and August 29, 2008. My staff met with management on August 29, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the CDFA and the Commission for their review and action if necessary. However, once finalized this report is public document and its distribution is not restricted.

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	Chairman via Legal Counsel, California Avocado Commission
1	Director, CDFA Marketing Services Division
1	Branch Chief, CDFA Marketing Branch
1	Chief Counsel, CDFA Legal Office
2	Chief, Audit Office